THE NEW GLOBAL OPPORTUNITY

DON'T BE PUT OFF BY THE DOWNTURN. THE BIG PAYOFF IS JUST OVER THE HORIZON. P. 96

FORTUNE

THE $600 Billion Challenge

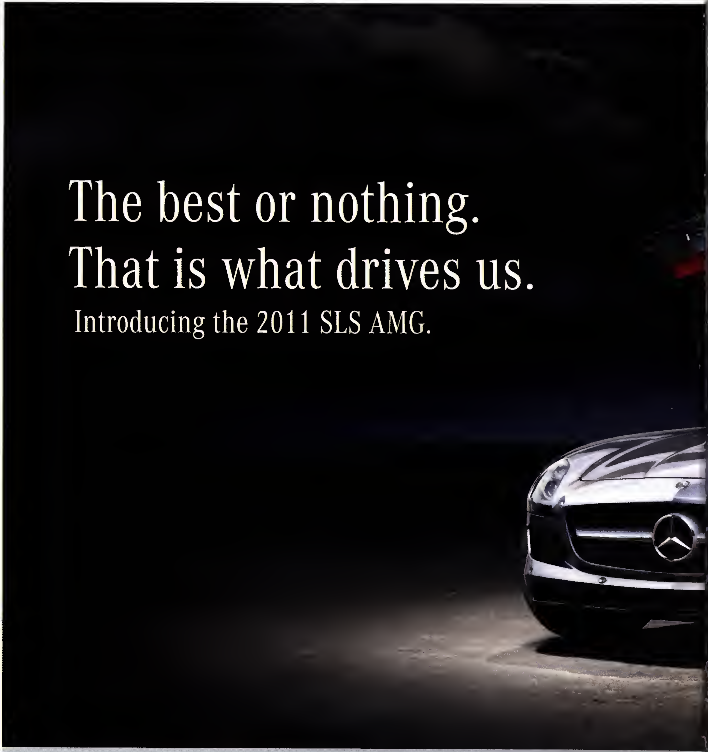
BUFFETT, GATES, AND GATES KICK OFF A CAMPAIGN TO GET BILLIONAIRES TO GIVE AWAY HALF THEIR WEALTH.

BY CAROL LOOMIS

P. 82

JULY 5, 2010
FORTUNE.COM

[redacted]



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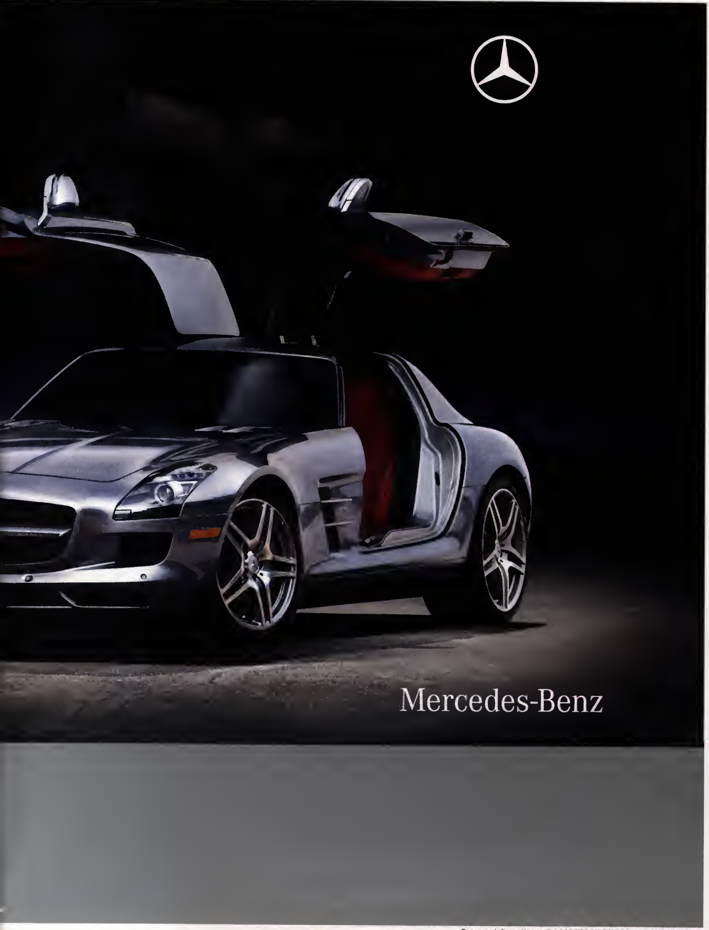

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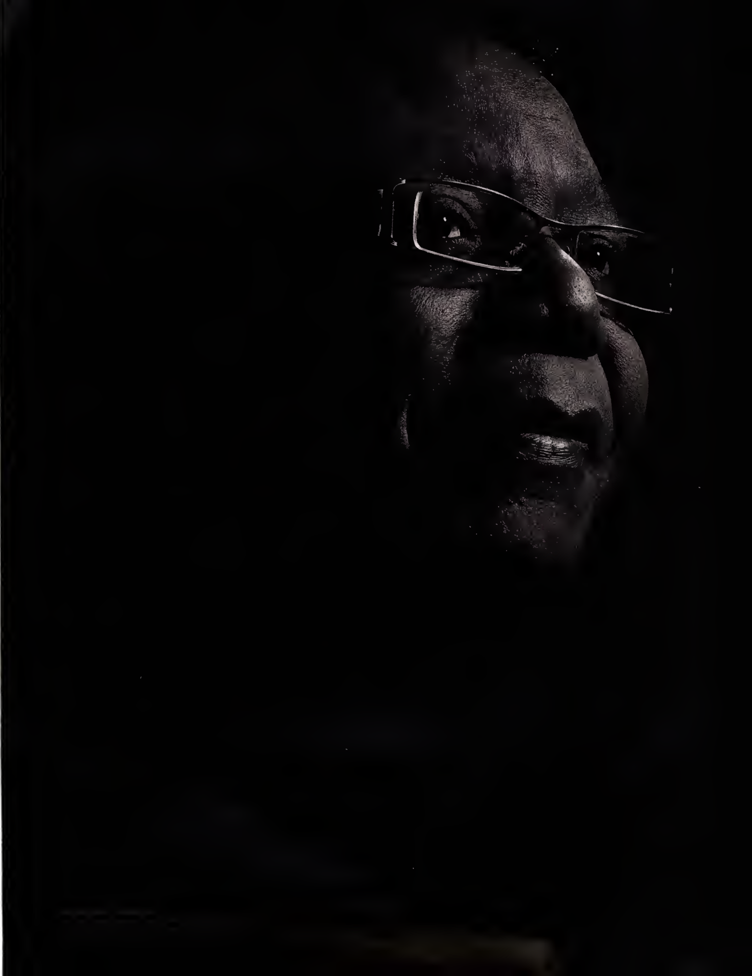
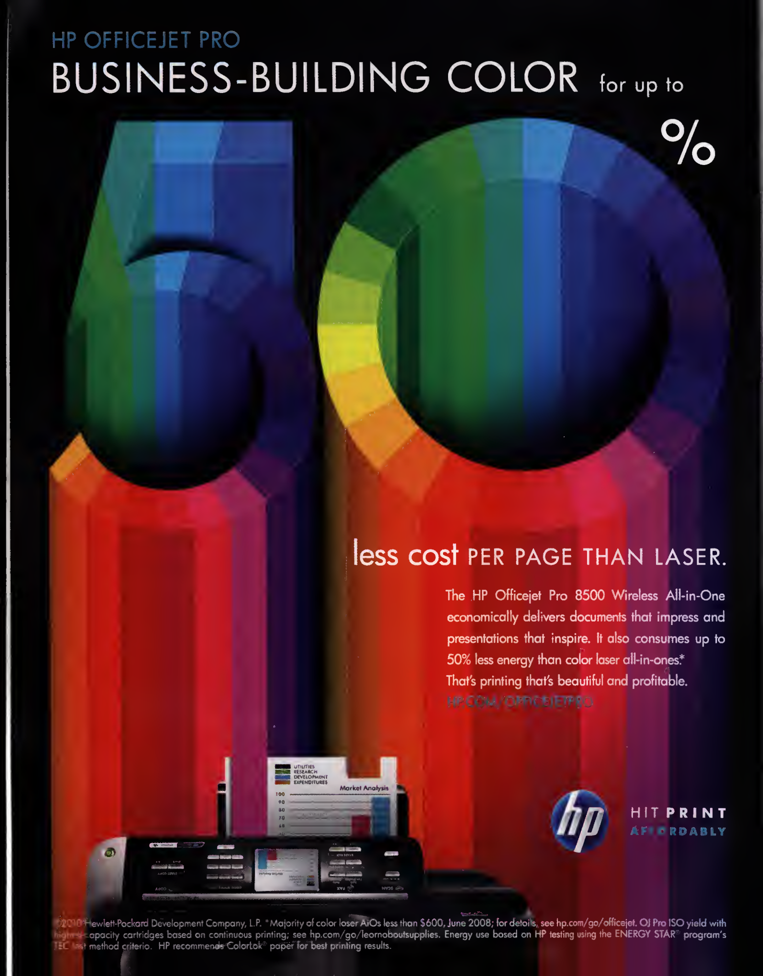


Dow

I am the Human Element in the daily challenge of putting abundant, healthy food on the world's table. To that end, we redesign plants to make healthier oils with no trans and reduced saturated fatty acids. That's the story of Omega-9 oil, a true innovation born of Nexera™ canola and sunflower seeds. It's an elegant solution. The kind you might expect at the intersection of science and humanity.

~Dr. Patrick Adu-Peasah
Agriculture Sciences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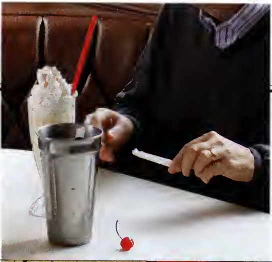
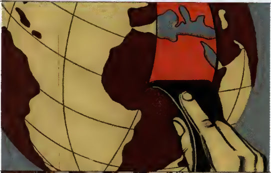
July 5, 2010
Volume 162
Number 1

FORTUNE





ON THE COVER

Photograph by Art Streiber

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Everything we know, the minute we know it.

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Number 1
FORTUNE


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FIRST


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TECH


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CAREER


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INVEST

Opinion

THE WIMBLEDON CHAMPIONSHIPS

THE ALL ENGLAND LAWN TENNIS
AND CROQUET CLUB
LONDON, ENGLAND
JUNE 21ST TO JULY 4TH, 2010

Inscribed above the players' entrance to Centre Court is the biggest "If" in all of sports. Few will ever earn the right to see Kipling's words there. But those who do will know they're not about winning or losing. They're about the greatness that comes from honoring the game. When walking on to the grass of Centre Court, one senses honor is the name of the game. That and an unbreakable will to win.

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"Every employee counts, and taking care of their benefits adds to the bottom line."

In these economic times, small businesses are forced to make cuts. But Texas Book Company, which buys and sells college textbooks, took a more creative approach with the help of a benefits advisor. Recently, the company's CEO and CFO discussed their strategies with **author and financial expert Jean Chatzky.**

- **Hit the books.** You need to look at your balance sheet, line by line, and see where you can save. Is the company's insurance coverage handled by several different providers? Consolidating could shave down the cost. Put your retirement plan under the same umbrella and you'll likely save even more.
- **Listen.** As a business owner or manager, you have to tune in to what's being said around the water cooler about benefits. Jean says listening to your employees will not only improve retention, it will help recruitment rates. That translates into lower costs for you.
- **Educate.** If you change your benefits plan, you have the responsibility to educate your employees about their new options. Host group information sessions, offer one-on-one meetings with financial professionals from the plan provider, and offer a toll-free number that employees can call to get information about their insurance coverage and retirement plan.

t10050302ae

To find out more about how Texas Book met the challenges of a shaky economy, watch their video on **AmericaRebuilds.com.**

Fortune.com

1

HOW TO RAISE A FEW HUNDRED BILLION

When Warren Buffett and Bill and Melinda Gates set out to change how (and how much) the wealthiest in the world give, they turned to a pledge. Online, we go deep into the history—and future—of their plan. See:

THE ICE CREAM SUMMIT
Warren and Bill met at a diner near the Omaha airport to plan how to go public with their pledge project.

THE LETTERS
Requesting that someone give away half his net worth isn't easy. Read the initial outreach letters.

WHO IS COMMITTING
As the billionaires start pledging, we'll keep track. Visit Fortune.com to see which new big name is giving it away.
fortune.com/greatgivers

2 PHOTO GALLERY

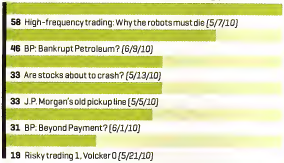
IF MICKEY DROVE A FERRARI Opening in October, the Ferrari World theme park in Abu Dhabi promises to make families feel as if they're spending a day in a driving machine. **fortune.com/ferrari**

ANALYTICS

BLOGS

TALK ON THE STREET
Since its May launch, Fortune.com's Street Sweep blog has been a reader favorite. Commenters tend to relish posts on trading, drilling, and lawmaking. [And playing off of BP's initials brings them in too.]

The Commentariat The six highest-drawing posts



TOP: ART STREIBER

DREAMS

PUTTING *it all* BACK TOGETHER.

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Fantastic Forum

FORTUNE HAS ALWAYS been a magazine about big ideas. Whether pushing for free trade in the magazine's early years or, more recently, explaining how technology will revolutionize our lives, *Fortune* has made a mission of cutting through the hype to what's significant. And so I'm delighted to report that this issue presents not just one deep, important idea, but two. First, Michael Elliott has written a terribly impressive piece on the future of capitalism and the developing world. Mike's story, which is salient in its own right, also speaks to a signature event for us: *Fortune*'s 11th Global Forum, held this year in Cape Town from June 26 through June 28. Besides being the first Global Forum ever convened on the African continent—yes, at the same time as soccer's World Cup—it's also the first such event produced in conjunction with our sister publications *Time* (where Mike is deputy managing editor) and *Sports Illustrated*, along with our corporate cousin CNN. The CEOs and other top executives, politicians, heads of nongovernment organizations, and celebrities who are attending this conference—where the subject will be growth and development not just in Africa but globally—would do well to start with Mike's piece, which focuses on the power of China, the promise of Africa, and the fact that women must be recognized as key to economic success.

Mike, who also writes a column in *Fortune*, is uniquely qualified, as he has a couple of law degrees from Oxford and has been covering international business for more than 2½ decades. Overseeing our global coverage at *Fortune* is executive editor Stephanie Mehta, who heads up our tech reporting when she is not wearing her international hat. Sure, she is hardworking, but would you believe also super-informed and cool, calm, and collected? We're not sure how Stephanie does it all ...

As if that weren't enough, this issue also features a groundbreaking cover story from the incomparable Carol Loomis about a guy named Buffett and a couple named Gates who have a remarkably appealing plan to encourage the world's billionaires to greatly step up their philanthropy. If the world's richest do jump on this bandwagon, it could mean hundreds of billions of dollars more to change the world for the good. Doesn't get much bigger than that.

ANDY SERWER
Managing Editor

GLOBAL FORUM
The New Global Opportunity

MARTIN ADOLFSSON; BALL: GETTY IMAGES

A SMALL WORLD AFTER ALL ELLIOTT AND MEHTA KICK OFF THE GLOBAL FORUM.

FEEDBACK *fortunemail_letters@fortunemail.com*

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Letters

UNDERLYING QUALITY

Gregg Segal did a superb job photographing "The Directors" for your *Fortune* 500 issue (May 3). The underlying idea, the crisp message, the perfect shootings, the great selection—all are examples of how good results come with talent, skill, and thorough preparation. The same can be said of the 500. While other countries are seeing growth through innovative companies, the U.S. continues to show an impressive array of disciplined, well-managed corporate leaders.

MARIO TUCCI
Montevideo, Uruguay

VIRGIL BASTOS

A GREAT MAN WITH A BIG HEART

I am both a journalist and a longtime friend of Steve and Myrna Greenberg's. You did a marvelous job of capturing him in "The King of the Sports Deal" (May 24). He is really among the loveliest human beings, forget heavy-hitters, I have ever known. And Steve and I share another bond: He is the only other person I know who thought being the child of a celebrity was a plus, not something to be overcome. (My mother was Ann Landers.)

MARGO HOWARD
Cambridge, Mass.

THE DISMAL SCIENCES

Why do so few pursue degrees in science, technology, engineering, and math ("The STEM Challenge," June 14)? Try effort vs. reward: Undergraduate engineering school was a lot harder than law school. Patent attorneys where I worked earned more than the Ph.D.s who created the inventions, and general attorneys (with no technical education) were even better paid.

GEORGE LIBMAN
Tucson

A FISH STORY

As a retiree who's lived in Florida for some years, I assure you I am not looking for a house with acres to mow and five bedrooms filled with family or friends expecting room service on endless visits ("Five Great Places to Retire," June 14). What retirees want are two- or three-bedroom homes with small lots—and hotels and motels nearby. When you are in your leisure years, the old saying that fish and company smell after three days is very true.

MALCOLM REDING
Vero Beach, Fla.

CORRECTION

In "The Top Picks From 25 Great Investors" (June 14), we misquoted Lisa Myers as saying that Microsoft has a 12% share of the Chinese PC market. In fact, she estimates that 12% of Chinese have PCs. *Fortune* regrets the error.

LETTERS TO THE EDITOR

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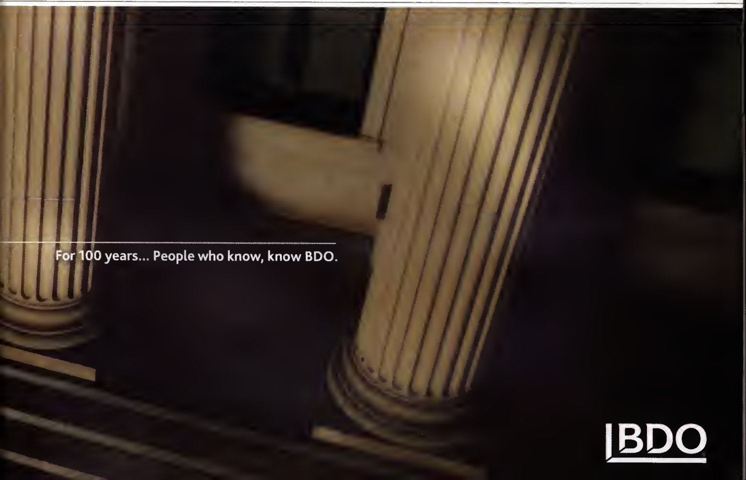


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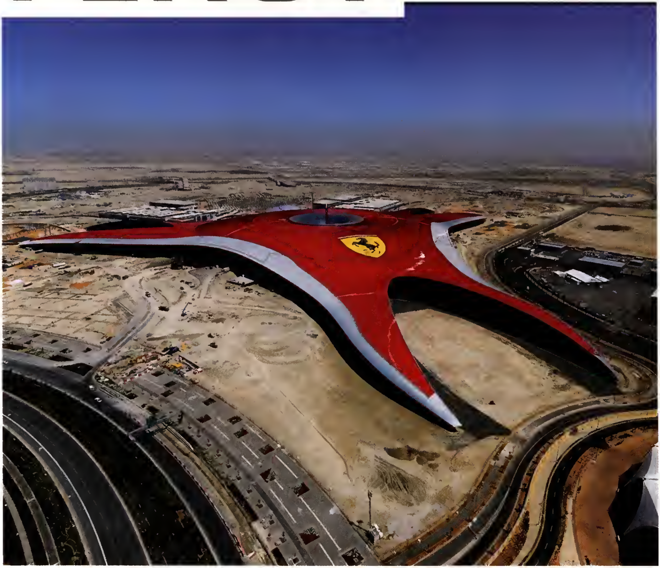
F1RST

BY THE NUMBERS
DESERT DREAMS

Yes, that's a Ferrari car body stretching across the desert. Ferrari World, a giant racecar-themed amusement park, is set to open in October in Abu Dhabi, recession be damned. It's the latest addition to Yas Island, a $40 billion project in the United Arab Emirates' wealthiest member. The goal: diversification of its oil-dependent economy. —*Scott Cendrowski*



149
MILES AN HOUR
is the speed at which the Ferrari roller coaster, the world's fastest, travels. Riders must wear eye protection.

1.5
MILLION
people visited Abu Dhabi last year—double the 2005 number—as the world's eighth-largest oil producer pushes tourism.

7
local companies, including Ferrari World developer Aldar Properties, have been downgraded by Moody's amid worries the government may not guarantee their debt.

CLOSER LOOK

The Cleanup: Who's Cleaning Up

THE WORST U.S. OIL SPILL EVER MEANS TRAGEDY FOR MOST. BUT FOR SOME THERE IS ALSO OPPORTUNITY. *By Scott Cendrowski*

NEAR SHELL BEACH, LA., WORKERS LOAD OIL BOOMS ONTO A BOAT FOR PLACEMENT IN THE GULF.

IT'S SIX O'CLOCK on a sticky Louisiana morning when Captain Peace Marvel takes the day's first BP-related call. His job: Match out-of-work captains of charter fishing boats with scientists needing a lift to the oil slick. A captain himself, Marvel, 43, is now working 18-hour days at his one-month-old company, PeaceKeeper Logistics, which he set up to win work from BP. "When we realized the scope of the spill, it was the only thing to do," he says. "All I'm handling is one little piece of the pie."

It may be one little piece, but it's an ever-growing pie. The largest oil spill in U.S. history is also one of the most expensive cleanup projects ever—which means that money is being made as well as lost. BP has already spent more than $1 billion; that's a rate of $25 million a day. If the process continues for the next six months, the total cost could be at least $7 billion, predicts Morgan Stanley analyst Theepan Jothilingam.

So who is poised to profit? Start with a $1.7 billion-in-sales company called Seacor Holdings, based in Fort Lauderdale. After the *Exxon Valdez* spill and the subsequent Oil Pollution Act of 1990, government-mandated readiness plans made oil-spill response a lucrative business. Seacor has seven subsidiaries active in the gulf; its nonprofit rival, the Marine Spill Response Corp.—funded by a group of Big Oil and shipping companies—has 7,000 people at work. Seacor's helicopters ferry Coast Guard personnel over the marshes. Its 200-foot ships transport supplies. At subsidiary O'Brien's Response Management, consultants work with BP at command posts. "It's a 24-hour coordination," says Eric Fabrikant, 29, Seacor's vice president. Seacor won't talk about the cleanup's impact on profits, but Tim Parker, an energy analyst at T. Rowe Price, says it could be more than $10 million.

Nalco, the Illinois-based water treatment firm (see C-Suite, page 30), has sold more than $40 million of its oil dispersant Corexit. Clean Harbors, a Massachusetts disaster-response company, expects second-quarter sales to jump 15% to 20%, or up to $70 million. Procter & Gamble shipped 7,000 bottles of Dawn dish soap to clean animals, then promoted its efforts nationally. And on May 25, the SEC halted trading in ACT Clean Technologies to investigate its statements about BP's interest in its technology, which boosted the penny stock 2,000%.

At a Venice, La., marina, Lee McLean is a captain working with BP. He's earning double his usual day rate of $1,200 and grins when he says, "I want to know how long this faucet stays on." Looks like a very long time. ■

JOE RAEDLE—GETTY IMAGES

Hemorrhaging oil—and cash: Where BP's money has gone so far

Source: Estimates by Barclays Capital as of 6/1/10

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1 *first*

The Briefing

RETIREES FEELING WORSE

Over the past 12 months, percentage of retirees surveyed whose confidence in our current financial system has ...

SOURCE PRINCIPAL FINANCIAL WELL-BEING INDEX, 2ND QUARTER 2010

HISTORIES

DAVID CAMERON'S ANCESTOR, THE KING—OF CHICAGO GRAIN

David Cameron, Britain's newly elected Prime Minister, is a blue-blooded Tory who traces his lineage to King William IV. But looming in his ancestry is a flamethrowing capitalist who made a killing in the Chicago grain pits of the Gilded Age. Alexander Geddes, Cameron's great-great-grandfather, left his family farm near Aberdeen, Scotland, in 1860, and ended up in Chicago, where he built an empire of cargo ships, grain elevators, and traders. In 1874 a band of short-sellers colluded to push down the price of barley. So Geddes bought every shipment that arrived in Chicago, crushing the shorts and making $70,000 ($1.4 million today). He was also a critic of the Chicago Board of Trade. "Their effort to restrict business," he railed, "caps the climax of their folly!" With his riches, Geddes returned home and built Blairmore House, now a corporate retreat, where he raised cattle before dying in 1902 at age 60. Watch closely to see if Geddes's ghost appears in Cameron's approach to the markets. *—Shawn Tully*

RETAIL

FACTORY OUTLET FEVER HITS CHINA

Ah, the factory outlet. For decades it has enticed Americans to trek to places like Manchester, Vt., to get better prices for their Armani and Polo, most of which is produced in China. Which makes it odd—or fitting—that **one of China's biggest commercial real estate trends is factory outlets.** The top executive of a U.S. sporting-goods maker there says outlets (the Mandarin word is phoneticized English) are the fastest-growing retail segment in the world's fastest-growing economy. China has 22 outlet malls, up from just one in 2002. Why the boom, given that clothing prices are cheap there? Piracy. China's surging middle class sees brand names as a badge of success, so they are shunning rip-offs. Another sign that the Chinese have only just begun to shop. *—Bill Powell*

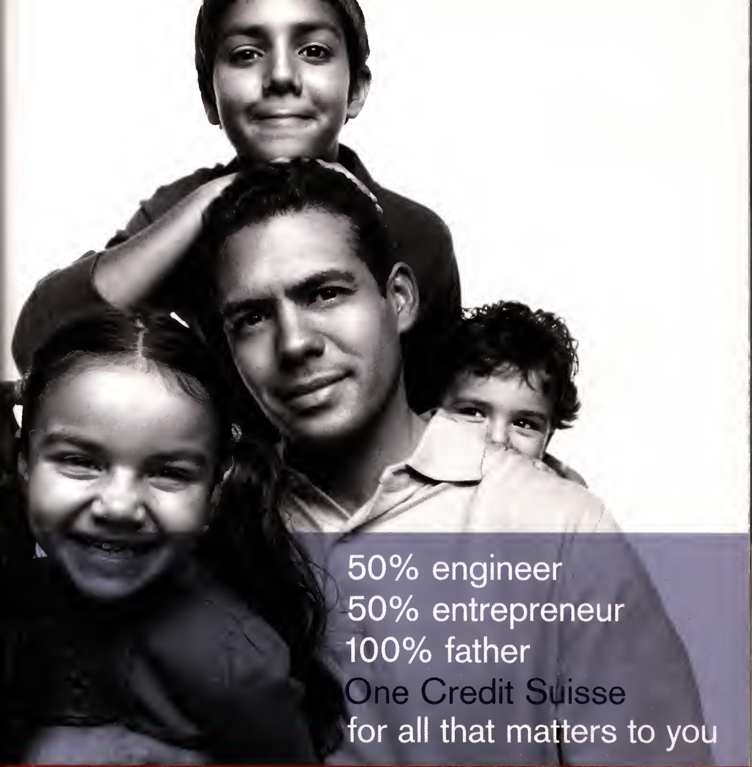
MICROLENDING

GRAMEEN IN ... OMAHA?

When you think microfinance, you might think India. But now Omaha is one of the first U.S. outposts of **Grameen America,** the affiliate of the famous microloan bank. Why Omaha? It's home to Warren Buffett, who in 2006 gave each of his kids $1 billion to start foundations. Last year daughter Susan's Sherwood Foundation gave Grameen $3 million. "Things are working in Omaha exactly as they do in Bangladesh," says founder Muhammed Yunus. "Women go through their struggles as they do everywhere else." Since launch, Grameen has made 485 loans averaging $2,000 to local women for businesses like salons and child care. So far the repayment rate in Omaha is 99.5%—a return that would make Warren proud. *—Jessica Shambora*

ORIGINAL PHOTOGRAPHS: DAN KITWOOD—GETTY IMAGES (CAMERON); GEORGE ROSE—GETTY IMAGES (PARLIAMENT BUILDING); CHRIS MACHAN—BLOOMBERG/GETTY IMAGES (BUFFETT); IMAGINECHINA (OUTLET)

Illustrations by SEAN MCCABE



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NESTLÉ

COMPANY SNAPSHOT

HEADQUARTERS: Vevey, Switzerland

EMPLOYEES: 278,000 / BRANDS: 6,000

THE BUSINESS: The world's largest food manufacturer, with brands ranging from PowerBar to Jenny Craig, sells its products in more than 140 countries.

N**ESTLÉ: FAMOUS MAKER** of chocolate, coffee—and the world's biggest producer of halal food for Muslims? Another surprise: that the company managed to gain market share in most business segments in a recession—largely because of the scope of its offerings. Nestlé isn't just the biggest producer of halal food (which conforms with Islamic dietary law) in the world; it's the biggest producer of food, period (ahead of Kraft), with 2009 revenue of $99 billion. While its scale is enormous—1.2 billion people buy its products daily, and 28 of its brands bring in more than 1 billion Swiss francs (about $870 million) annually—one of its strengths is not thinking like a behemoth.

Nestlé knows how to tailor products to local niches while leveraging its size. What Evolution Securities analyst Warren Ackerman calls its "glocal" approach has landed it at the No. 1 spot in its category on *Fortune*'s World's Most Admired Companies list every year but one since 1998.

That mindset has created items like Nescafé with creamer and sugar included, useful in places lacking refrigeration, and a huge range of products targeted to subgroups like Hispanics in the U.S. "That's why we don't have two factories—we have 450," CEO Paul Bulcke tells *Fortune*. "We empower our people to make consumer-relevant decisions as close as possible to the markets."

It helps that Nestlé spent nearly $2 billion on R&D last year. Along with new products, the company is expert at what it calls "renovation," or refreshing existing brands. (Cherry Raisinets, anyone?) Nestlé's research also helped it realize that health and nutrition were the future long before most of us had heard of probiotic yogurt. Its 60/40+ strategy means that, when testing a new product, it wants consumers to prefer its products over its competitors' six out of 10 times, and that it wants them to have added nutrition (the plus). As for the recent acquisition of Kraft's frozen pizza business? "There's no unhealthy food," asserts Bulcke. "There are unhealthy diets."

True or not, the diversity of Nestlé's portfolio helped it weather the storm last year. The company has offerings within every price point, such as Deer Park and San Pellegrino waters and Dreyer's Edy's and Häagen-Dazs ice cream, allowing even those that trade down to remain within the Nestlé fold without even realizing it. *—Beth Kowitt*

THE NUMBERS

Nestlé's 28 "billionaire brands" make up 75% of its revenue. Here's a sampling of some of the company's best-known names.*

NESPRESSO
$2.8 BILLION

GERBER
$2.1 BILLION

KIT KAT
$1.7 BILLION

PURINA DOG CHOW
$1.1 BILLION

HOT POCKETS
$1.0 BILLION

*Estimates from Marco Guipers, ING Commercial Banking

Illustration by TAVIS COBURN


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Lighting Up Africa

Nuru Energy, a London startup, has found a way to make high-efficiency LED lighting affordable in rural Rwanda. The secret? Create an army of local entrepreneurs. ***by Brian Dumaine***

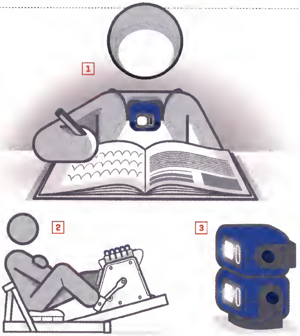
IN THE BUGESERA REGION of Rwanda—a land known for its sorghum farming and also its poverty—an experiment in capitalism is taking place. For lighting, most villagers here use kerosene lamps, which cause air pollution and lung disease and are a severe fire hazard. Annonciata Mukandekwe, a 50-year-old basket weaver, has a better idea. She spends an hour a day pedaling a small generator that charges LED lights. In her first two weeks in business, this widow sold 140 of the \$6.58 lamps to her fellow villagers. Mukandekwe earns \$3.78 a day in charging fees—more than triple the daily income in rural Rwanda. Her customers get safe, clean lighting at one-tenth the cost of kerosene.

Sameer Hajee, the co-founder and CEO of London-based startup Nuru Energy, is the man who helped Mukandekwe set up her business. Hajee, who has an Insead MBA, got his inspiration while working at the U.N. and at Freeplay Energy, a successful London business that sells crank-up radios around the world. At the time, Freeplay's foundation was piloting a micro-business model to provide foot-powered generators to rural Africa. Most new technology used in the poorest parts of the world is donated. Depending on the kindness of strangers makes adoption slow and erratic. The question, says Hajee, is, "How do we get technology into the hands of as many of the people who need it the most?" The answer: Create sustainable businesses run by locals.

Hajee left Freeplay and eventually founded Nuru, an 11-employee for-profit, in 2009 with \$200,000 in seed money from the World Bank Lighting Africa initiative. Nuru arranges microloans for entrepreneurs to buy the lamps, plus an additional \$200 to buy Nuru's bike-pedal electric charger. It takes the business owner about six months of pedaling to earn enough cash to pay back the loan with interest. After that it's mostly all profit. Nuru, which manufactures the patent-pending LED lights and pedal chargers in China, also provides its entrepreneurs with training in accounting. So far this year Nuru, which is still in the ramp-up stage and has yet to post a profit, has set up 70 businesses in Rwanda, providing lighting to the equivalent of 7,000 families.

Hajee does not want to stop at lighting. He sees Africans using his pedal generators to make a living charging cellphones, radios, and more. Says he: "Our vision is that eventually we'll have hundreds of thousands running recharging stations. We are trying to build an entrepreneurial platform for rural Africa."

The idea works. All that seems to be holding back even more rapid adoption of the technology is fresh capital for those microloans. ■



PEDAL POWER

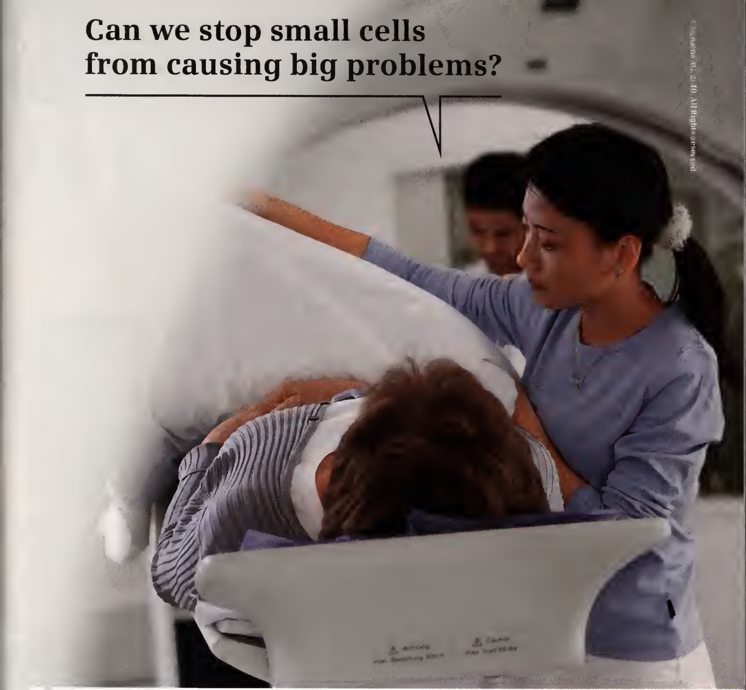
1. Nuru Energy makes low-watt LED lamps that are good at task lighting for doing homework or changing a baby.

2. An entrepreneur uses a microloan to buy a \$200 pedal generator that can simultaneously charge five LED lamps in 20 minutes.

3. Villagers who buy these \$6.58 lamps pay the entrepreneur 27¢ for each charge, enough for roughly 10 days of typical use.

ADAM BACHER

Diagram by OOGD



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THE FUTURE IS NOW

MAKING HYBRIDS HUM

When hybrid cars first appeared on the scene, manufacturers touted their silent engines. But soon it was clear that cyclists and pedestrians—especially the visually impaired—relied on car sounds to help them navigate streets and intersections. So U.S. lawmakers are mulling the automotive equivalent of adding odorant to odorless gas: They want car makers to put the sound back into electric cars. Here's how it works:

WE'RE NOT TALKING ABOUT customized "car tones" that would enable a Prius driver to make her engine rev like a Porsche's (though technically that's possible). Proponents want synthetic car noises to be standardized across models. Audio supplier Harman International has developed technology that synthesizes digital sounds that mimic an engine's hum, tuning them to match the car's state—idling or accelerating, say. The audio system is then linked to the car's electronic controls so that the correlating sound will be triggered by pressure on the car's pedals or the shifting of gears. The sounds are then broadcast through speakers that are strategically mounted to the outside of the vehicle so that pedestrians can hear the vehicle up to 10 feet away.

Illustration by GUYCO

There was a time when air conditioning was considered a luxury. It's back.

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WESTERGREN PLAYED IN BANDS BEFORE FOUNDING PANDORA.

VISIONARIES

Pandora's Founder Rocks the Music Biz

TIM WESTERGREN has made friends with the record labels, retailers, and consumers—and his company makes money. Not bad for a former starving artist.
By Michael V. Copeland

PANDORA'S TIM WESTERGREN took a somewhat meandering path to starting what amounts to the world's largest radio station. The 44-year-old executive spent much of the 1990s as a struggling musician. During a gig at a Palo Alto Holiday Inn in the late 1990s he found himself playing piano in front of a big-screen television broadcasting the latest football scores. Adding to the indignity, a football fan approached "and asks me to stop playing for a moment, so he can hear the scores," Westergren says. "He can read them, but he wants to *hear* them."

MICHAEL EDWARDS

"PANDORA IS GOING TO GO FROM TENS OF MILLIONS OF LISTENERS TO HUNDREDS OF MILLIONS." —*Tim Westergren, chief strategist, Pandora*

After collecting his free hamburger from the hotel kitchen later that night, Westergren gave up the hotel gig, and began thinking about other musical options.

If you are one of Pandora's 21 million monthly users, you may have a loutish sports nut to thank for the service.

Years before Apple launched the iTunes music store with its Genius recommendation feature, Westergren figured there was a business opportunity in using technology to help music fans discover new artists. He developed something called the Music Genome Project to analyze music for similar traits and in 2000 launched Pandora, which lets users customize stations around bands they enjoy. Say you're a fan of the Grateful Dead. Pandora will play songs from Jerry Garcia's solo catalogue, the Band, and Phish, artists who have similar subtle characteristics, or "genes," such as vocal style and melodies.

The free service was an instant hit with consumers, and eventually Pandora became a model partner for the embattled music industry, electronics makers (some of which embed the Pandora application on their devices), and even would-be competitors like Amazon, which also recommend music. Even Apple CEO Steve Jobs has shown Pandora some love. Westergren says he and his team were among Jobs' chosen few to present their iPhone apps at an Apple event in April. "We help them sell phones," Westergren says. "They like that."

Pandora expands its reach through such relationships. "Putting the service on every device is how Pandora is going to go from tens of millions of listeners to hundreds of millions," he predicts.

Pandora, which posted its first profitable quarter late last year, gets most of its revenue ($50 million last year, Westergren says) from video, audio, and graphic advertisements. (An ad-free premium service costs $36 a year.) "Pandora has shown that you can monetize new listening models," says Mitch Bainwol, head of the Recording Industry Association of America.

Musicians, who can be prickly about online distribution of their wares, are Pandora fans too, in part because they get paid every time a song gets played. (Last year the company gave $30 million back in royalties to performers and publishers.) And since Pandora's approach to serving up tunes doesn't use popularity as a criterion, every composition in the catalogue, whether it's recorded by an unsigned band or by a major-label artist, has an equal chance of getting played and finding an audience.

That kind of musical meritocracy is perhaps the biggest part of why Westergren started Pandora. He wanted a way for people to discover the legion of unsigned musicians he was a part of in the '90s. In 1994 his band, YellowWood Junction (a Robert Frost poem reference), was named, somewhat ignominiously, "most promising unsigned band" by a San Francisco radio station.

"There were some great bands, but they were only known to the people who saw them play live," says Westergren, recalling his touring days. "I remember thinking, 'If only these bands could get some kind of exposure.'"

In other words, if only there had been Pandora back in Westergren's Holiday Inn lounge-playing, YellowWood Junction days, things might have been different. "We could have been big," Westergren says, laughing. "We could have been so big." ■

EVERYONE LOVES PANDORA

WHY THE ONLINE MUSIC SERVICE HAS ALL KINDS OF FANS—EVEN STEVE JOBS.

CONSUMERS

Listeners like the ease of using Pandora, and the service is free. You program your stations with the music you like, and since the music lives in the "cloud," you can access it from almost any Internet-connected device.

RECORD LABELS

Labels are eager to get their artists' music on Pandora in the hopes that consumers will discover previously unknown bands or go out and buy the latest tunes from major artists. Publishers get paid a royalty by Pandora as well.

MUSICIANS

Every time a song of theirs gets played, they get paid. The service doesn't rank by popularity, only by musical traits. So that unsigned garage band has as much of a shot at stardom on Pandora as any superband.

ONLINE MUSIC RETAILERS

Pandora isn't an on-demand service, and you certainly can't record or even rewind favorites. A listener might learn about a band on Pandora but needs to buy it or stream it elsewhere. Pandora gets a small royalty for directing listeners to Apple and Amazon online stores.


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TECH STAR

Bill Ford, Venture Capitalist

THE FORD CHAIRMAN HAS A SURPRISING SIDE PROJECT: FUNDING IDEAS THAT COULD EASE CAR CONGESTION.
By Michael V. Copeland

FORD HOPES TO FUND DATA-DRIVEN TECH COMPANIES.

A FEW YEARS AGO the CEO of Ford Motor, Bill Ford, began pushing the company to be more sensitive to the environment. The result: The automaker today produces five different hybrid models that help reduce gas consumption and pollution. Now Ford, currently executive chairman of the car company, has turned his attention to another byproduct of the proliferation of cars: traffic and global congestion. But instead of using the muscle of the corporation that bears his family's name, Ford is tackling the problem using his personal wealth and investment savvy.

Earlier this year Ford and two friends, Ralph Booth and Mark Schulz, launched Fontinalis Partners, which aims to invest in technology companies that can help alleviate the problems that come from having more cars on the road than the local infrastructure can handle. "You are really seeing the limits to congestion in big cities," Ford tells *Fortune* in an exclusive interview. "And as we looked harder at the problem, it was clear there were lots of interesting technologies and applications that I thought could address this issue."

Fontinalis (a nod to the Latin for "brook trout") is looking to fund companies that use data to make us smarter drivers, cyclists, or pedestrians. The firm's first investment, Atlanta-based Parkmobile, has developed an application for smartphones that helps drivers find available parking spots and allows them to use the handset to pay for parking. Finding parking more easily may not seem like a solution for global congestion, but on average 30% of all traffic in cities worldwide is caused by people driving around looking for parking, according to a 2007 UCLA study.

The Fontinalis partnership isn't structured like a typical venture capital or private equity fund, so investors in Fontinalis will change from deal to deal. The firm will make investments of all sizes in companies all over the world. And while the Fontinalis partners are hoping for VC-size returns on their investments, Ford insists that that isn't their only motive: "We realize it's a lot more fun when you are actually doing something that helps make the world a better place." ■

THE NUMBERS

600 MILLION
Passenger cars on roads around the world

40
Worldwide number of "megacities"—urban areas with more than 10 million residents—expected to develop by 2030

45%
Estimated amount of traffic in Brooklyn that is caused by people looking for parking

LUCY NICHOLSON—REUTERS

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50,000

ESTIMATED NUMBER OF JOB-RELATED WEBSITES, ACCORDING TO WEDDLE'S BIANNUAL GUIDE TO EMPLOYMENT SITES ON THE INTERNET

CAREER

THE WAY WE WORK

Why You Need a *Career Curator*

Your in-box is jam-packed with networking blasts, trade group info, and random blather that only hurts productivity. But there are lots of places to get some virtual help. ***By Vickie Elmer***

ERIN YOUNG FOLLOWS 700 people on Twitter to glean the "best content I possibly can find." The Austin-based consultant, who helps companies design products and services from the user's perspective, scans more than 50 career and industry blogs on her Google Reader. She subscribes to e-letters and swaps useful articles with colleagues.

Illustration by ANDREW BANNECKER

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posi+ive
ways to save
time

Time is precious for the busy business professional, and how it's spent matters. By managing time wisely, anyone can maximize creativity and productivity, achieve their goals, and live out their dreams. Here are a few tips:

1 **Schedule meetings wisely.** The average executive spends 40% of his or her time in meetings, according to research studies—but you don't have to. Require an agenda, ask who's responsible for what, and set an hour limit per meeting.

2 **Work remotely but efficiently.** While working from home can boost one's productivity, it demands excellent time-management skills. Create a clearly defined workspace, limit work hours and breaks, and stay in touch with co-workers to avoid isolation.

3 **Control e-mailing and social networking.** Today's technology has made communication faster and easier, but also less manageable. Check messages at regularly scheduled intervals, separate social and work-related online activities, and limit the sites that you bookmark and the time you spend on them.

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"BETTER TO FOLLOW 200 PEOPLE WHO PUT OUT MEANINGFUL CONTENT THAN 2,000 AND IT BECOMES NOISE."

—Mary Ellen Slater, senior editor, SmartBrief.com

Often it's just too much. "I do feel overwhelmed at times. I bring that on myself," she says.

It's no wonder our heads and inboxes feel overstuffed. More than 50,000 job-related websites operate in the U.S. There are thousands of trade groups and small businesses offering reports, not to mention the ever-proliferating stream of career and management books. "There's less and less reported advice" on careers and more and more self-promoting professionals, says Mary Ellen Slater, senior editor for careers, leadership, and human resources at website SmartBrief. To help separate the jewels from the rest, we've created a curator's guide to job-related content, with help from several experts.

First, be selective. Before subscribing to a blog or a new site, make sure it matches your career and life goals and your current situation. Margaret Dikel, who since 1994 has run the Riley Guide, a web hub for job seekers, rejects three sites for every one she mentions. "I want to see quality," she says. She wants enough access before registering to review some of the content, and looks for site managers with a true background in the subject area as well as for jobs unique to the site.

Bonnie Easton, careers and business specialist at the Cuyahoga County Public Library outside Cleveland, also runs an information-packed job site. When considering books, she favors authors with years of expertise such as Martin Yate (Knock 'Em Dead series) and Wendy Enelow (executive-résumé writer). She skips most books based on personal experiences or epiphanies and suggests avoiding anything more than five years old.

It's a good idea to be similarly choosy about your social-media connections. "Be pretty ruthless about who you are tuning in to," says Slater. "Better to follow 200 people who put out meaningful content than follow 2,000—and it becomes noise." Young tracks 41 user experience RSS blog feeds and others like Mashable, and deletes anything that she doesn't want to read immediately. Those she wants to keep or share go into her Google documents folder or onto her blog.

Finally, of course, there's the old-fashioned power of real-life connections. Angela Kujava spent hours on social-media outlets last year while job seeking. Yet her best advice has come from a monthly group that meets in person. There, at least, she can push past the clutter.

SIX USEFUL CAREER CONSOLIDATORS

THE RILEY GUIDE An independent online directory of career and job search resources. *rileyguide.com*

SMARTBRIEF E-LETTERS SmartBrief on Your Career and SmartBrief on Leadership are good aggregators. *smartbrief.com*

QUINTESSENTIAL CAREERS Quintcareers.com provides advice, articles, and book reviews, some aimed at recent grads.

CUYAHOGA COUNTY PUBLIC LIBRARY Its careers page is extremely detailed. *cuyahogalibrary.org/careerexpert.aspx*

HARVARD BUSINESS REVIEW'S blog network, especially Peter Bregman's. Covers management, leadership, ethics. *blogs.hbr.org*

RISESMART This site uses seven metrics to rank the top 100 career blogs in English. *risesmart.com/risesmart/blog/career100/*


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Here we harvest healthy plant
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top-selling nutritional supplements,*
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C career

COACHING

I Deserve a Raise. Do I Dare Ask for One?

THE EXPERT

ROBERT BARNETT

SR. PARTNER, WILLIAMS & CONNOLLY

A contract negotiator for top execs at Deutsche Bank, Carlyle Group, and AT&T, he has also done publishing deals for Bill Clinton and Sarah Palin.

NO ONE HAS TO TELL YOU that things are tough around the office. Ever since your team's headcount was slashed, you've put in extra hours and taken on additional projects without complaining. You deserve a raise, but in this time of constrained budgets, is it safe to ask? *Fortune* consulted Robert Barnett, senior partner at the law firm Williams & Connolly, based in Washington, D.C. In addition to his negotiating bona fides, he also helps prep presidential candidates for debates. But don't worry: You don't need Barack Obama's skills to get a raise.

DON'T WAIT FOR A REBOUND

If you wait for the boom days, you may be waiting a long time. Make your move when you can prove that you are deserving with concrete examples of accomplishments, such as showing the weekends you have worked.

TIMING IS IMPORTANT

Most companies have a budgeting cycle; be aware of it. Come in two months before, not two weeks after, the company has made raise decisions. Do not ask on a Friday afternoon or before a vacation; your arguments will be long forgotten by the time your boss returns to work or presents your case to those above him. Do not ask during a crisis.

PREPARE YOUR CASE

Determine your best arguments, such as how hard you have worked, what you have accomplished, or how you have mentored others. Learn about the pay system and find out how discretionary decisions are made. Try to determine what others make. Anticipate your bosses' arguments.

ASK FOR HELP, NOT MONEY

It's best to approach your boss for assistance rather than directly requesting cash: that way he is more likely to become your advocate. Say, "I would really appreciate your guidance on what I need to do to get a raise." Most people like to be mentors. Cultivate that instinct.

LIVE TO FIGHT ANOTHER DAY

If you do not succeed, don't start a confrontation. Do not threaten to leave unless you are prepared to do so and have a place to go. Walk away in a friendly and amicable way. Your turn may come the next time around. *—Interviewed by Beth Kowitt*

Illustration by MARK MATCHO

ONE-MINUTE MENTOR

Networking for Introverts

ALLISON HEMMING, *president, The Hired Guns, a digital talent agency*

Ditch the pitch. Instead of that infamous elevator pitch, learn to tell the story of you. Keep it short and sweet, think about where you've been and where you're going, and it'll blow away the 15-second drivel most people deliver.

Build confidence. Rather than throwing yourself into a supercharged group of expert backslappers, take baby steps. Start with one-on-one meetings that you orchestrate.

Don't go it alone. Bring a wingman. Being introduced by someone who knows your story will elevate your importance and set you at ease. And when you introduce someone else, you'll see how easy it can be.

Arrive early. As things get started, everyone is feeling a touch awkward and eager to meet others. Once the party is hopping, it's harder to insert yourself.

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From Tech Bubbles to Soap Bubbles

career

WHAT HE DID: Built and sold tech company Atrana Solutions
WHAT HE DOES: Runs Soap Hope, a business with a nonprofit arm
By Abby Ellin

BOUKADOUM FEELS "A TREMENDOUS AMOUNT OF URGENCY."

AFTER SALAH Boukadoum sold his tech company, Atrana Solutions, for a cool eight figures—something most entrepreneurs only fantasize about—he faced a mini existential crisis: What next?

The answer wasn't obvious for Boukadoum, 42, who had followed a less than traditional career path. At age 9 the Oklahoma native, whose father immigrated from Algeria, began playing the piano. By 14 he was performing classical music before live audiences and soon was touring internationally—a thrilling but "lonely existence," he says.

In 1994, at 27, he shifted to business, founding Vision Solutions, which made software for point-of-sale systems. Within 10 years the company, renamed Atrana Solutions, had $10 million in sales. Alliance Data acquired it in 2005, and Boukadoum stayed on for about five months, but felt frustrated. "Entrepreneurs think radically differently from large corporations, especially in terms of pace," says Boukadoum, whose first name, Salah, means "success" in Arabic.

Boukadoum had long been intrigued by microfinance. Since the recipients of microloans are primarily women, he decided to build a company that focused on female customers. The result, launched in 2009: Dallas-based Soap Hope, which sells all-natural body-care products online (www.soaphope.com).

Soap Hope is a decidedly for-profit venture, but with a philanthropic twist. At the end of the year the company invests all its profits in nonprofits with an antipoverty mission, such as Chiapas International and the Plan Fund. Yet its investment is just a loan: The nonprofit recipient must pay back all the funds within 12 months. "All we're doing is delaying our [profits] by one year," says Boukadoum. Since any new loans are made with the next year's profits, he says, "there's actually a rolling investment."

Boukadoum dubbed his idea Good Returns and hopes it will morph into its own nonprofit, providing a "Good Housekeeping"-type certification for participating companies and offering insurance to guarantee the loans. In the meantime Soap Hope should bring in $750,000 this year and turn a profit. Although Boukadoum sees the business as mostly a way to prove that the Good Returns concept works, he also hopes to raise $1 billion for antipoverty microloan initiatives. "I feel a tremendous amount of urgency to demonstrate that this model works," he says. "I am much more aware now of how little time each of us has to make our maximum impact." ■

STARTING OVER (AGAIN)

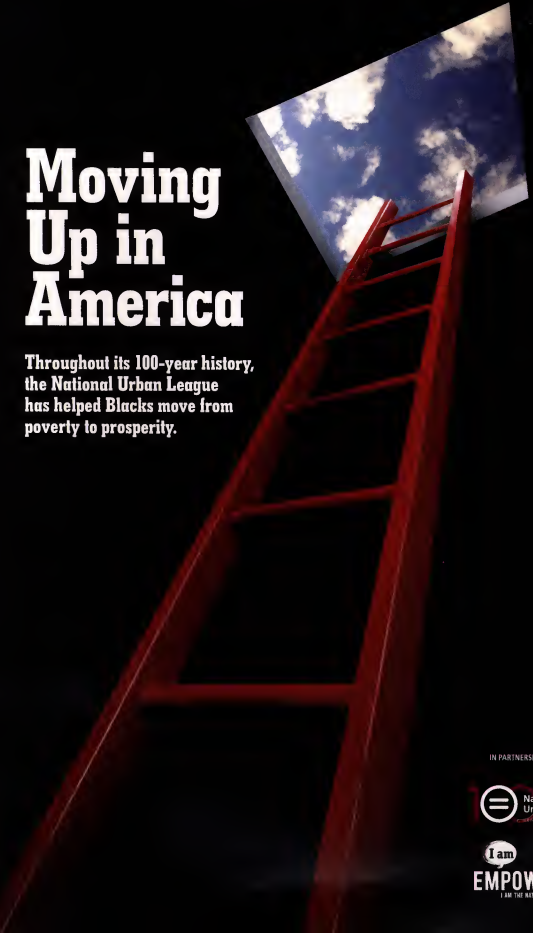
DON'T HESITATE
"Start a new business immediately," says Boukadoum, "even prior to selling the old business if possible." For people with a lot of creative energy, it is easy to lose momentum if you have too much downtime.

BUILD A TEAM FIRST
"My instinct was to scale back, find a new model, and then build a new team," says Boukadoum. "That was incorrect: I should have hired a small, flexible team. I would have found my new model much more quickly."

Photograph by BRENT HUMPHREYS

Moving Up in America

Throughout its 100-year history, the National Urban League has helped Blacks move from poverty to prosperity.



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National Urban League
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I am EMPOWERED
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In early 2009 when Ty Hoke, 50, lost his job testing military equipment, he and his wife fell behind on their mortgage payments. Hoke, who lives in Cedar Hills, Tex., turned to the Urban League of Greater Dallas and North Central Texas.

The affiliate spent six months helping the couple to negotiate a loan modification, which lowered their interest rate and brought their payment from $1,148.36 to $789.21 a month. "It takes out the stress," says Hoke, who has since found a job as a security guard.

This year marks the 100th year that the National Urban League has helped Americans, and particularly African Americans, in need. With millions of people facing foreclosure, demand for its services has been high. The NUL serves 50,000 clients a year in its foreclosure-prevention program. "We are with them every step of the way," says Cy Richardson, the NUL's vice president for housing and community development.

A Social Trailblazer

Ensuring that every American has safe, affordable housing is one of four goals the National Urban League hopes that all will adopt for 2025 as part of its new "I Am Empowered" campaign, which aims to address disparities in the situations of people of color. The others are: giving every American access to a good job that pays a living wage and good benefits; getting all children ready for college, work, and life; and providing all Americans with access to affordable health care. Blacks fare only 72% as well as whites and Hispanics fare only 76% as well as whites on measures such as employment, education, and health, according to the NUL's Equality Index published in the State of Black America 2010, which evaluates the well-being of African Americans and Hispanics.

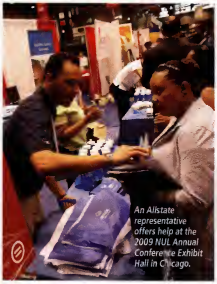
The NUL's Centennial Conference will spotlight these goals. Planned for Washington, D.C. from July 28 to 31, it will feature a free career fair and college fair, and a 4,000-square-foot interactive exhibit on the NUL's history.

The NUL is also using technology powered through its social media platform at www.iamempowered.com to promote its initiatives. "We probably sent out a million communications to push the passage of comprehensive health reform," says Marc H. Morial, NUL president and CEO and a former two-term mayor of New Orleans.

Catalyzing Job Creation

Ty Hoke isn't alone in discovering how quickly unexpected joblessness can lead to mortgage delinquency. With the black unemployment rate still at 16.5% in April (compared to 9% for whites), the NUL provided job training to 50,000 Americans last year. It is also advancing a six-point plan calling for the creation of three million jobs. "If you put people to work, that will produce taxpayers, which will address the deficit," says Morial.

Shell has gotten very involved in the National Urban League's Green Jobs Initiative, which focuses on the formation of "green empowerment zones." The idea is for businesses to get tax breaks for creating jobs manufacturing solar panels and similar technologies in neighborhoods with high unemployment. Shell helped the NUL to organize its Green Jobs Summit in December 2009, where 50 business, community,



An Allstate representative offers help at the 2009 NUL Annual Conference Exhibit Hall in Chicago.

JOHN GRESS/REUTERS/CORBIS

Intel congratulates the National Urban League (NUL) on its 100th anniversary and applauds the work that has been done by NUL to provide economic empowerment, educational opportunities, and the guarantee of civil rightsfor African Americans.

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nonprofit and academic leaders gathered in Washington, D.C. to brainstorm ways to bring green jobs to urban communities. The corporation provided panelists who lead Shell initiatives in areas such as wind energy, says Francene Young, vice president of U.S. diversity and inclusion. "The key presenters were African American, which was important to share with NUL that African Americans play key roles in the energy industry," says Young.

The NUL has also stepped up its focus on entrepreneurship through nine Entrepreneurship Centers. John Davis, Jr., a retired county parole officer, and his wife Amonica, a college administrator, both 43, got help in finding their now-thriving janitorial services franchise, ServiceMaster Clean, in 2007 and writing a business plan from the Entrepreneurship Center of the Urban League of Greater Cleveland. "You can dream all you want, but unless there's someone out there to provide you with support, education, and training, it will never come to fruition," says Amonica.

Getting High Marks on Education

Eryc Duhart enrolled in Project Ready with his parents' support. The program, offered by affiliates such as the Urban League of Rochester, N.Y., encourages African-American men to pursue higher education, through activities from debate contests to college tours. "It kept me focused during high school," says Duhart, 18, who is now studying videogame design and development as a freshman at Rochester Institute of Technology. The affiliate will soon introduce the NUL's Science Technology Engineering and Math program (STEM), which will use hands-on learning experiences to get young people excited about similar technical careers. "Science is more than ending up in a room with a Bunsen burner and a lab coat. It also includes green jobs and technology, digital literacy, and architecture," says Hal Smith, vice president of education and youth development for the NUL.

"You can dream all you want, but unless there's someone out there to provide you with support, education, and training, it will never come to fruition."

Partnerships with major corporations have helped the NUL to advance its educational goals, says Morial. Shell, for instance, has routinely sent staff to the annual NUL conference to mentor high school and college students through NUL's Black Executive Exchange Program, designed to introduce young people to career opportunities in corporate America. "We have a core value of making sure we are actively involved in the communities where we operate," says Young. "We want people in our communities to know there is a need for diverse talent in our industry, and what it takes to be successful."

Intel has encouraged the participation of Urban League clients in its Computer Clubhouse network, an afterschool program to help young people develop technology skills. The network is an international community of 100 Computer Clubhouses located in 20 countries. In partnership with community-based organizations around the world, Intel aims to increase the numbers of girls and underrepresented minorities pursuing technical careers. "The percentage remains low," says Rosalind Hudnell, chief diversity officer and director of education and external relations at Intel. For example, the National Association of Colleges and Employers found that African Americans earned fewer than 8,500 of the 68,000 bachelor's degrees awarded in engineering in the U.S. in 2006, according to the most recent data available. "It is why we do an incredible amount of work to get more African Americans and others to see technical career opportunities," says Hudnell. "We want young people to be excited about engineering and recognize that they can achieve their goals through commitment and education."

If the NUL continues to succeed in its many educational partnerships, companies like Intel should have a better pipeline to talent. "The success of the Urban League has been its ability to evolve to meet the needs of an increasingly diverse society and an increasingly competitive job market that needs the next level of skills," says Hudnell. By working with the NUL to reach communities whose talent has yet to be tapped, she says, companies can contribute to a level playing field while helping technology to progress. ●

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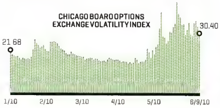
Turbulence Returns

AFTER A PLACID STRETCH, THE VOLATILITY INDEX—COMPOSED OF OPTIONS ON THE S&P 500 INDEX—HAS BEEN SPIKING AND PLUNGING IN RECENT MONTHS.



STRATEGIES

How to Ride an *Up-and-Down Market*

Volatility is rocking stocks. But there are ways to profit from that discomfiting trend.

By Adam Lashinsky

VOLATILITY IN THE STOCK MARKET is a lot like turbulence on an airplane: scary, nausea-inducing, and, if at all possible, best to ignore. Just as a plane almost certainly will land safely despite the uncomfortable bumps, the market usually rises over time (the gruesome past decade notwithstanding). Yet while for the vast majority of investors the sen-

Illustration by HEADCASE DESIGN

"AT THE VERY LEAST, [VOLATILITY] IS A SIGNAL TO *NOT* GET OUT OF THE MARKET, BECAUSE INVESTORS INEVITABLY BAIL OUT AT THE BOTTOM."

-Jon Najarian, TradeMonster.com

sible thing to do in the face of choppy markets is *nothing at all*, some yearn to seize the day. After all, seesawing prices can mean opportunity.

By that measure there has been plenty of opportunity of late. The Dow Jones industrial average registered triple-digit gains or declines 22 times between April 20 and June 9, the most since the financial crisis of late 2008. Here, then, are three approaches to volatility that anyone can take—provided you have the stomach and the attention span to do so.

"RENT" YOUR STOCKS

One way to profit in unstable markets is to sell call options on shares you already own, a strategy that Jon Najarian of online brokerage TradeMonster.com likens to earning extra cash by "renting out" your stocks. (Such options, sold through brokerages such as Schwab, are available only on the most widely traded stocks.) Selling a call option means you collect a fee for granting another investor the right to buy your shares at an agreed-upon price. That's a particularly lucrative approach right now, Najarian says. Volatility has spurred increased demand for call options, sending their prices up 20% in recent months.

For example, imagine you own 100 shares of McDonald's stock, which was trading at $69 in early June. At that price, you're already receiving a 3.2% annual dividend; Najarian says you can earn an additional 1.7% return *per month* by selling the call options. Here's how it works: Let's assume you think fair value for the stock is $70. So you sell call options at $70. If the stock stays below that level, you'll collect $120 per month in fees as long as the contract runs (typically a month) and can hold it as long as you like. The potential hitch: If McDonald's shares jump, say, to $75, the buyer can purchase your shares at $70 and you give up some of the gain.

BET ON VOLATILITY ITSELF

Stock market turbulence has a gauge colloquially known as the "fear index" and often referred to by its ticker, the VIX (more properly, it's the Chicago Board Options Exchange Volatility Index). The VIX comprises a variety of options contracts that reflect how much options investors believe the S&P 500 stock index will move—either up or down—in the next 30 days.

Investors can buy an exchange-traded note (similar to an exchange-traded fund) that aims to make money off moves in the VIX. The **IPATH S&P 500 VIX SHORT-TERM FUTURES** ETN (VXX) mirrors the VIX and rises when options investors take out the most insurance against a falling stock market. Tom Lydon, a wealth adviser in Newport Beach, Calif., and publisher of the website ETF Trends, recommends a specific strategy for playing it. "If it's above its 50-day moving average, you buy," he says, because the trend favors increased volatility. "If it falls below the 50-day moving average, you sell."

Making such a bet on volatility, it should be emphasized, is antithetical to a buy-and-hold philosophy and should be used with extreme caution. For starters, a volatility investor has to monitor the position constantly. For roughly a year before this spring, volatility was tame, and VXX got hammered, losing more than 50% of its value as the stock market smoothly soared. Moreover, VXX uses borrowed money to juice its bets, so it swings even more wildly than the market. On the day in late May that Lydon shared his strategy, the S&P was experiencing a moment of euphoria, up nearly 3% for the day. VXX, by contrast, was off 8%.

Lydon suggests staking no more than 3% to 5% of your investable assets on such a gambit. In an unstable market a small volatility position will help make up for losses elsewhere; in a placid market the money lost will be an acceptable hedge.

STAY THE COURSE

Even if you don't try to exploit volatility, at minimum you shouldn't run from it. "In general, when the public gets scared, that's the time to take advantage of volatility if you've got the intestinal fortitude," says Najarian. "At the very least it's a signal to *not* get out of the market, because investors inevitably bail out at the bottom."

Put differently, one response to volatility is a nonresponse: not so much ignoring it but acknowledging that today's big move is transient and realizing the truism that your long-term investments will pay off (if done prudently)—in the long term. Indeed, chaotic markets provide a strong rationale for that venerable staple of investing wisdom: dollar-cost averaging. If you regularly contribute to, say, a 401(k) that buys a few shares of an index fund every two weeks, you may find yourself occasionally buying on an upward spike, but you are almost equally guaranteed to benefit from the downswings too.

Air passengers are sometimes mystified at the calmness of pilots during a rough flight. But professionals have a better sense of what's worth being afraid of. Regular investors may never achieve that steely calm. There's no reason, however, they can't learn to tolerate, if not enjoy, the ride. F

Reporter associate: Doris Burke

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The most common side effects with LOVAZA are burping, infection, flu symptoms, upset stomach and change in sense of taste.

LOVAZA may affect certain blood tests. It may change:

- One of the tests to check liver function (ALT)
- One of the tests to measure cholesterol levels (LDL-C)

Talk to your doctor if you have side effects that bother you or that will not go away.

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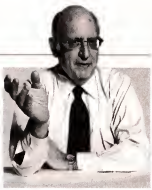
Opinion

by Allan Sloan

YOU'VE SEEN THE REACTION TO THE OIL SPILL. NOW GET READY FOR THE OVERREACTION.



IF YOU'RE SEARCHING for yet another reason to hate BP and distrust Washington, here it is. No, I'm not talking about the dead birds, befouled beaches, or zillions in damages inflicted on millions of Americans by the incompetents at BP (enabled by clueless federal regulators). Rather, I'm talking about the way our nation will overreact to the Deepwater Horizon disaster. That overreaction will cause us far greater damage than the disaster itself will, because we'll import more oil than we otherwise would and produce less of our own.

Our country's economic clout is already diminishing because we're importing huge amounts of capital to cover our budget and trade deficits, while exporting huge numbers of production jobs to the rest of the world. The last thing we need: increasing oil imports and becoming even more vulnerable to pricing and political pressures from oil-producing countries that aren't exactly friends of Western democratic principles—while watching money gush out of our country to oil exporters even faster than oil is gushing into the Gulf of Mexico.

Yeah, I may sound a little over the top. But as someone who used to write about regulated utilities for a living, I can't help but remember the damage we did to ourselves as a nation because of the partial meltdown at the Three Mile Island nuclear generating plant near Harrisburg, Pa., in 1979. It was a terrifying incident, but it turned out that there was only minimal damage to the environment and probably none to the local citizenry—other than scaring them half to death.

The only economic damage of consequence was to the plant's owner, General Public Utilities. But there was huge collateral damage to our country. The environmental and regulatory fallout (pun intended) from TMI led us to shun new nuclear plants for almost 30 years. Although some of the nukes under construction at the time were completed, it wasn't until 2007—that's 28 years after the incident—that we got our first post-TMI application to build a new one.

Meanwhile, we grew increasingly dependent on coal, oil, and natural gas to generate electricity. We now see that carbon dioxide–spewing coal plants weren't such a great idea, and that using oil and gas rather than gradually growing nuclear wasn't very smart either. But Three Mile Island trauma left us a generation behind the rest of the industrial world at building and running nukes.

I can only imagine what the overreaction will be to Deepwater Horizon, which, unlike Three Mile Island, is a genuine environmental and economic disaster. There's already a deepwater-drilling moratorium. How many bureaucrats will risk their careers by approving future drilling offshore, or in environmentally sensitive areas like Alaska? When even Republicans—the "drill, baby, drill" party—carry on about BP, it's going to take extraordinary bravery and wise, long-term-oriented political leaders to keep us exploring and developing our own oil and gas.

We certainly shouldn't let industry run itself. Left to their own devices, free markets tend to excesses, followed by collapses. That's how we got the 2007–08 financial meltdown and the Great Recession. But we can't keep running our country reactively. We overreact to horrifying but fluky events like Three Mile Island and Deepwater Horizon, costing ourselves dearly. How likely is it that we'll see a second explosion in an ultra-expensive well a mile below the surface spew hundreds of millions of gallons of oil into the sea? How much will it cost us to try to prevent it?

In an ideal world BP would make everyone whole for the damage it's caused, its top managers would be fired and impoverished for having failed as stewards, and the company's shareholders would be wiped out in an orderly, controlled bankruptcy that doesn't create worldwide chaos. That would dramatically demonstrate the costs of screwing up, thus making future screwups less likely. We'd adopt reasonable new rules, greatly increase the financial penalties for operators who pull another BP, and get on with our lives, realizing that there's no realistic, affordable way to eliminate all risk from the world.

Want to keep hating BP? Be my guest. But let's not penalize the rest of us in the process. ■

Reporting by Marilyn Adamo

COMMENTS: *asloan@fortune.com*

by Becky Quick

NO PERP WALKS. NO JAIL TIME. WHY PROSECUTORS ARE GOING EASY ON WALL STREET.

THE FINANCIAL CRISIS wiped out almost $7 trillion in stock market value in 2008. It destroyed iconic American companies like AIG, Bear Stearns, Lehman Brothers, and nearly broke GM, costing tens of thousands of workers their jobs. It pushed millions out of their homes. And that's just in the U.S.—forget the fallout still raining down on Europe and the rest of the globe. So where are the jail terms, or at least the perp walks, for those who oversaw it all? Cue the crickets.

"Nowadays we have zero indictments and arrests at the senior ranks," bemoans Bill Black, a law professor at the University of Missouri at Kansas City. "Fundamentally, what's happened is the regulators have deserted the process. They are completely out to lunch." Black should know. During the savings-and-loan crisis he served in the Office of Thrift Supervision, where he helped bring more than 1,000 criminal convictions for top level officials. Remember seeing Charles Keating Jr. and Michael Milken dragged off to jail? That was, in part, his handiwork.

Things are different these days, for a lot of reasons. After 9/11, about 500 of the FBI's best white-collar-crime specialists were transferred to focus on national security matters. (That call makes sense; why those resources were never replaced does not.) Plus, the cases are notoriously difficult to win, and the government has suffered some high-profile losses in recent years. Think of the Securities and Exchange Commission's case against HealthSouth founder Richard Scrushy. He was acquitted on all 36 counts brought against him, despite having five former CFOs testify that he not only knew about accounting fraud at the company but urged them all to inflate earnings. Scrushy's defense (in so many words): He had the misfortune of hiring five crooked, book-cooking CFOs in a row. "When you've got people caught dead to rights and they still get off, this scares the hell out of the prosecutors," says Black.

That's probably why prosecutors are ignoring what should be a powerful weapon in their arsenal: Sarbanes-Oxley. The Scrushy case was a big black eye for Sarbox—it was the first case brought against a CEO under the 2002 law. But investor Jim Chanos, who spotted the problems at Enron long before the rest of the market, says the government is missing a huge opportunity. "I'm rather stunned that with all the effort that went into enacting Sarbox, specifically for these types of financial crimes, that not one major case using its provisions has been brought in connection with the crisis," he says.

Sarbox requires every public company's CEO and CFO to sign off on the accuracy of their accounting statements, and it provides criminal penalties for "knowingly or willfully" providing false certifications. And it's incredibly relevant today, because many of the biggest failures during the financial crisis involved financial shenanigans.

Take Lehman Brothers. We now know that Lehman was dressing up its books using a fancy accounting trick called "Repo 105" transactions; essentially, those transactions kept billions of dollars of debt off its balance sheet and allegedly helped the firm look far healthier than it was. Former Lehman CEO Dick Fuld now says he knew nothing about the transactions. Granted, it might be difficult to prove he did. The government has succeeded in winning some cases in the past. Ken Lay, the former chairman and CEO at Enron, died just a few months before he was scheduled to show up for sentencing of up to 30 years. Former Enron President Jeffrey Skilling and former Tyco CEO Dennis Kozlowski are both still sitting in prison, as are Adelphia's John and Tim Rigas.

And many of the situations from the most recent crisis seem worthy of pursuit. Besides, the risks of not pursuing these cases are just too great. "If you can steal from your shareholders and you don't go after those people, you set up a level of cynicism among the general population that is disconcerting," says Chanos. "It raises the specter of crony capitalism and two different sets of laws for the wealthy and the not so well-to-do."

"Disconcerting" may be an understatement. Already populist anger on Main Street is boiling over, and no wonder. As long as prosecutors continue to look at such white-collar crime as too difficult or too unrewarding to tackle, you can expect the mercury to just keep rising. ■

Becky Quick is an anchor on CNBC's Squawk Box.

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INTERVIEW BY GEOFF COLVIN

The King of Water

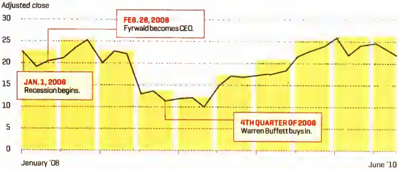
NALCO CHIEF EXECUTIVE **ERIK FYRWALD** ON THE BP CLEANUP, HOW HE MOTIVATES HIS CUSTOMERS...AND MORE.

YOU PROBABLY KNOW that General Electric and other large companies have plunged into the water-treatment business, believing it's likely to boom globally for decades. Yet most people don't know that the industry's biggest player—bigger even than GE in this field—is Nalco of Naperville, Ill. (2009 revenue: $3.7 billion). It's easy to see why major players want in. The world grows dramatically thirstier as it industrializes—water demand grows about twice as fast as population. Yet the planet's total water supply cannot be increased; it can only be managed.

The trend plays to Nalco's strength, but for years the company was distracted by shifting ownership and organization. During a turbulent period a decade ago it was part of France's Suez Lyonnaise des Eaux and then a private equity portfolio company. Nalco regained its independence in 2004, and four years later hired Erik Fyrwald, a career DuPont executive, as CEO. Warren Buffett's Berkshire Hathaway began buying the stock months later—a typically shrewd bet (see chart)—and is now Nalco's largest stockholder. Fyrwald, 50, talked recently with *Fortune*'s Geoff Colvin about, among other things, competing against giant new rivals and what he learned as an outsider CEO. Edited excerpts:

RIDING THE WAVE

Nalco's stock took off after Buffett's Berkshire Hathaway bought in.



Photographs by MACKENZIE STROH

"OUR ONLY DESIRE," SAYS NALCO CHIEF ERIK FYRWALD, "IS TO FACILITATE CLEANUP IN THE GULF."

Q: **Let's start with the news. British Petroleum is using a Nalco dispersant called Corexit to break up the gulf oil spill. The EPA recently ordered BP to stop using dispersants at the surface "if operationally possible" and to study use of other, less toxic chemicals. Is this product safe the way it's being used?**

A: EPA has acknowledged that our product is safe and effective and that it's been unable to identify a safer, more effective available product to date. Should such a product come up, we would fully support switching, as our only desire is to facilitate cleanup in the gulf. It has been challenging to see quite a bit of inaccurate information in discussions about this product. It's made of six common ingredients, all of which have been studied for years and determined safe and effective by the EPA. They biodegrade and do not bio-accumulate. We've made available to regulators all information about the product, its ingredients, and how it interacts with the environment. The EPA continues to approve the use of Corexit in the gulf. It has played a significant role in mitigating the ecological effects of the spill. Of course we hope this disastrous spill can be completely stopped and the cleanup can finish up.

Dispersants are a very small part of Nalco's business. Most of your revenue comes from water-related busi-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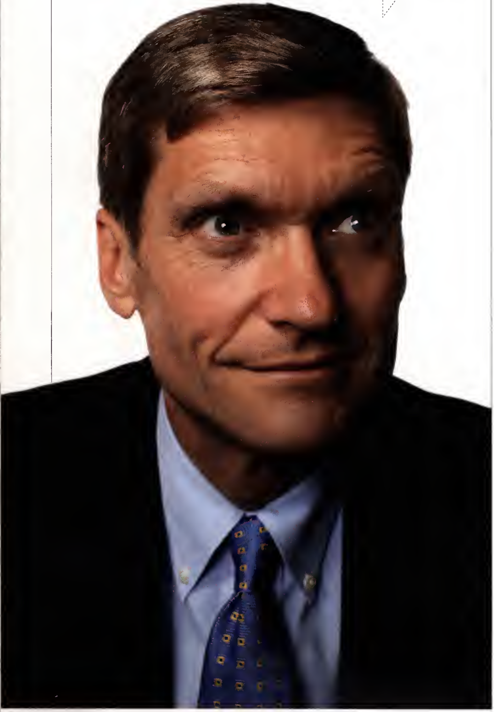
IBM

"As you get into the job and start to think you know the answers, don't get locked in. You haven't been in the company that long."



nesses, helping companies use water more efficiently. Environmentally that's wonderful, but economically, why should companies care about it today any more than they ever did?
A couple of reasons. One is the need for more productivity to be competitive. I think there's also a shift in the desire to be more environmentally sustainable. In addition, the greatest growth in the world now—China, India, the Middle East—is in parts of the world that are very water-starved. Their industries require a lot of water, so if you don't use that water very efficiently, there won't be enough water for people to drink.

Industrial use of water is far greater than what we use in our homes, but exactly what do companies do with all that water?
Every manufacturing facility or large building brings in water and typically uses it for its cooling and heating system. In industrial applications there's often a large need for cooling and heating the plant site. Then there's process water, which could be used in making products. All that water gets collected and goes through a wastewater-treatment system before it gets recycled or goes as effluent into a river or other area.

A big reason companies use water inefficiently has got to be that it isn't priced realistically. In some places it's practically free. That can't be a long-term sustainable situation.
Yes, and it happens all over the world. Western Europe, the U.S., and Canada are actually at the higher end of how water is priced. In China, India, and the Middle East, it's priced very low, even though people can't get enough. So you create a lot of inefficiency. People don't take care of the water systems, but then if industry can't get enough water, they can't

operate their plants. That even happens in the U.S. We've worked with companies that wanted to use less water just because they wanted to make sure they had access to enough of it to operate their plants.

For example?
Dow Chemical—their Freeport, Texas, site is their largest in the world. During drought periods they had challenges getting enough water from the river to run their processes. A team of our experts worked with Dow experts, did an audit of the entire site, installed our latest and greatest automation technology to monitor the whole site's water system 24/7. They were able to reduce water consumption at that one site by a billion gallons a year. The whole system runs more efficiently—less energy, less maintenance—and the plant can operate with a lot less water, so even during droughts it's not an issue.

Sounds as if we need to expect higher prices for water. Is that what's going to happen long term?
Yes, I think that's going to happen, and it's going to happen around the world. It's the only way you can get the right dynamic of conservation across industry and the consumer—and by the way, agriculture, which accounts for 70% of the freshwater consumed around the world.

When you look at the water opportunity globally, it's got to be a combination of where the greatest waste is, where the greatest need is, and where the pricing is appropriate. Put those factors together, and from a business perspective, where's the greatest opportunity?
It's in the high-growth countries. We call it BRIC-plus—the BRIC countries [Brazil, Russia, India, and China] plus the Middle East, South Africa, and the Caspian. It's for general industry and large buildings certainly, but also for the energy industry. The energy industry uses a lot of water.

Pumping oil out of the ground?
That's a big part of it. In oil production, often a lot of water comes out with the oil. We have to pull that water out of the oil, clean it up of course, and then allow it to be reused. Also, when you drill oil, initially the pressure of the oil is high enough that it comes out and your production is very strong. After a few years that pressure drops. So what oil companies typically do is drill other wells and inject water to increase the pressure and get the oil flowing again. That water will find channels through the porous rock and flood the well, which is obviously undesirable. We've developed a product that you inject along with the water. It will go to where that water's channeling. It pops open like popcorn and plugs that water from flowing through, allowing the water to exert pressure and drive increased production. So it can get up to 10% more oil out of that reservoir, with a lot less water being used. In gas production, water can get into the gas wells, and then you have to get that water out. We have technology to get foamers to the right spot, lift that water out, and allow the gas to be produced.

From the consumer's perspective there are two big classes of issues—places that don't have enough freshwater, and places that have enough freshwater but it isn't safe. What's the outlook for those places?
There are some geographies like India where the challenge is both. There's not enough water much of the year. There's a monsoon season, but the rest of the year there's a water deficit. By the way, the average woman in India spends a lot of her life walking just to get water, carrying it—a huge issue. But also the water that is available is often not clean enough.

We're working with companies so that not only do they use less water, but any effluent from their facility is cleaner. We worked with the Marriott in Mumbai to recycle their cooling-system water instead of using fresh water. They saved almost 300 million glasses of water a year from that one hotel, which can then be used as freshwater for drinking in Mumbai, where the quality and the quantity of water aren't what you'd want.

This whole business of water globally has attracted the attention of some very large companies—General Electric, Siemens, BASF. How does a relatively small company like Nalco compete with these giants?
Well, we're $4 billion in sales today, so we do have some resources. But also we wake up every day, 11,800 people at Nalco, and think about one thing: How can we help our customers use less water, be more energy-efficient with that water, get more oil and gas out of the ground in an environmentally sustainable way, efficiently using the water? That's all we think about from a customer standpoint and a technology standpoint. That's a very powerful motivator for our employees.

You have other technology that reduces emissions from power plants. That gives you a great interest in which fuels are used to produce power globally. What's the outlook?
Like it or not, coal is very abundant, and electricity production from coal-fired units is increasing around the world and will continue to increase in places like China and India. It's heavily used in Eastern Europe and South Africa. So the challenge is, if it's going to be used, how to be more environmentally friendly. That's an area that our technology fits well.

FYRWALD, ON THE C-SUITE SET, ABOUT BERKSHIRE HATHAWAY'S INVESTMENT: "WE'RE GLAD TO HAVE THEM ... HOPEFULLY, WE'LL CONTINUE TO MAKE THEM VERY HAPPY."

China is opening a new coal-fired plant a week. Is that country actually more interested in pollution reduction than it used to be?
Absolutely. I've been going to China for over 20 years now. I've been in businesses where we built facilities in China, and the challenge was that as a global company, we were building a facility that was meeting our global standards for air pollution and water quality, while our Chinese competitors were not. Today it's very different. The Chinese government has put a high priority on it, and I would say the Chinese population has put a higher priority on environmental improvement. That has translated to business in terms of regulations and enforcement of those regulations. The CEOs of the state-owned enterprises, a big part of the Chinese economy, are being judged on what they call green GDP—a combination of how they grow their company and improved environmental performance. It's been a tremendous change just in the past two to three years.

I would imagine you think putting a price on carbon, one way or another, is a good idea. What are the chances of its happening in the U.S.?
I think it's inevitable. The question is when, and I hope it happens in a way that's as consistent around the world as possible so that the playing field can be as level as possible. I would hate for us to have a very high bar set in the U.S. and have that cause manufacturing and jobs and technology to go offshore.

You came into Nalco as CEO from the outside. What was at the top of your to-do list?
I spent the first weeks and months listening a lot—to the leadership of Nalco, talking to people across the organization. Traveled a lot. Got out there with customers all over the world trying to understand what we do well, what we didn't do well, where they saw the opportunities. Spent time with my leadership team, getting their view on what we needed to do and also assessing the leadership and who we really needed, and what other capabilities we needed to bring in.

A lot of people in your position, coming in as CEO, have told me that focusing on the team is critical ...
Step one.

... and in many cases focusing on the culture. From the outside you'll see that it needs to be steered a little bit. Was that the case?
Yeah. The positive is, we had a great culture to build on, a culture of service, customer comes first. But we had not been nearly aggressive enough going after the growth geographies and bringing more of the water system solution to the customer. Talking to

the leadership, it was very clear that that was a huge opportunity.

You only get one chance at those first few months. When you look back, what did you learn?
I learned that as you get into the job and start to think you know the answers, don't get locked in. You haven't been in the company that long. You think because you've been in other places that you can figure it out quickly, start to form a theory of what the right answer is. Keep testing that theory, because it does two things. One, it gets the management team aligned. And two, you can get deeper into the organization, you can get customers connected to it, and then you get a much better answer. So don't make conclusions too quickly. At first I thought I knew the answers, but then the answers got much better as we dug deeper. That was very important.

What motivates your customers today? Your fundamental offer is that you'll save them money, and I'm sure that's appealing, but are some of them thinking longer term as well—thinking about a possible price on carbon or possible new demands from their own customers?
Yes. Five years ago our customer was the plant utility engineer, the purchasing person at the plant, and maybe, if we saved them enough money, the plant manager. Today the CEO and senior business leadership have goals around environmental sustainability that they didn't have before. If they can save money and have a real environmental impact, that's a big deal. And everybody's paying more attention to quality. If we can hit all those buttons, it's appealing to the business leadership in addition to the plant manager and the people running the water system. So we've expanded who the customer is within the customer. And it makes a big difference.

Nalco's largest shareholder is Warren Buffett. Do you hear from him?
I hear from his people. They certainly have visited us and researched us well, and we're glad to have them.

They're probably happy—the stock has done well since they bought.
It has, and hopefully we'll continue to make them very happy. ■

THE C-SUITE SERIES This is the latest interview with top executives by *Fortune* senior editor-at-large Geoff Colvin. See video excerpts of this interview at fortune.com/csuite—plus find other Colvin interviews, including those with Charles Schwab, the team of Jeff Immelt (General Electric) and A.G. Lafley (Procter & Gamble), Chevron chief executive David O'Reilly, New York City school chancellor Joel Klain, Pimco's Mohamed El-Erian, Vanguard's William McNabb, and many more.

TECHNOLOGY GURUS: WILLIS AND CARSON, THE FOUNDERS OF IC DATACOM

JACK OF ALL TECH TRADES

A GRADUATE OF DETROIT'S TECHTOWN, IC DATACOM FUNCTIONS AS AN OUTSOURCED IT DEPARTMENT FOR COMPANIES OF ALL SIZES.

WHEN IT COMES TO GETTING A SMALL business off the ground, Terence Willis and Dwayne Carson have been there, done that—and now they're helping others. The company they founded, Detroit-based IC Data Communications, serves as an outsourced IT department for both emerging and established enterprises, nearby and as far away as Nigeria.

IC Datacom, as it is known, is a jack-of-all-tech-trades, helping clients with computer networking, telecommunications services, video surveillance, and the infrastructure necessary to make it all work. The idea, says Willis, is to take care of all the technical nitty-gritty, so clients "are not focusing on technology but on their core mission."

Willis and Carson know the importance of focus. The two launched their first business, a small telecom company in the Detroit area, in 1999. In 2004, new regulations made it difficult for their business to remain competitive, so they decided to reinvent their company.

Why not function as a full-blown technology partner, able to handle all aspects of IT? Great idea, but there was a catch: The new company, IC Datacom, needed a partner itself. Startups are tricky—high on talent and ambition, but usually low on resources. Getting and making the best use of those resources was critical.

Enter TechTown, Detroit's research and technology park at Wayne State University, which is designed to stimulate job growth and small-business creation by developing, educating, and assisting emerging companies. "When we saw the resources TechTown provided, we knew it was the place for us," says Willis.

Chief among those resources is SmartStart, TechTown's 24-month program of coaching and workshops. "We had an advisor who worked with us on objectives. We learned how to market our business, and we got help when we needed funds to grow," says Willis. TechTown's guest speakers share expertise on a variety of business topics, and hardly a week goes by without a networking event—which has proved particularly useful for IC Datacom. Today some two dozen TechTown tenants are among its 300-plus clients. Meanwhile, IC Datacom has grown from a two-person cubicle into three offices housing 12 employees.

One of the key lessons TechTown provided is that startups need to get the most bang out of the least amount of bucks. That's why IC Datacom turned to Comcast for its own technology needs—and recommends them to clients, too. Comcast Business Class Internet offers speeds far greater than traditional T1 lines—up to 16 megabits per second, compared with a T1's 1.5 megabits—and for a lot less money. "In Detroit, a T1 for data only can cost hundreds of dollars a month, while our 16-megabit service runs at a recurring monthly charge of $89.95," says Mike Cebulski, Comcast's vice president of business services.

That combination of savings and service gets noticed by emerging businesses like IC Datacom. More importantly, it provides the vital link that helps them launch successfully.

—Alan Cohen

NICHOLAS WEISSMAN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ASSIGNMENT DETROIT

Factory of Dreams

WHAT DO YOU DO WITH AN OLD CAR-BODY PLANT NOBODY WANTS? TURN IT INTO A CREATIVE HIVE FOR UPSTART BUSINESSES THAT OFFERS A SPARK OF HOPE FOR DETROIT'S ECONOMY. *By David Whitford*

AN ARCHITECT'S STUDIO [ABOVE] AT DETROIT'S RUSSELL INDUSTRIAL CENTER, HOME TO 160 SMALL BUSINESSES.

THIS IS A STORY of two Detroit factories, one a symbol of despair and the other of promise. On the one hand is the old Packard car plant on East Grand—3.5 million square feet on 38 desolate acres. Broken windows, crumbling bricks, creeping vines, and a FOR SALE sign that's been hanging there for years. "Most of the interest," realtor David Wax told us, "is to tear it down for the steel in the building."

On the other hand, just down the road, stands an icon of hope, a gargantuan factory complex, the Russell Indus-

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A SPECIAL ADVERTISING FEATURE IN PARTNERSHIP WITH
THE WALL STREET JOURNAL.

THE RUSSELL INDUSTRIAL CENTER, DESIGNED BY ALBERT KAHN EARLY LAST CENTURY, CHURNED OUT CAR BODIES FOR FORD MOTOR; LATER IT WAS OWNED BY HARRY AND LEONA HELMSLEY.

MERLIN ELSNER

trial Center. It has the same lofty pedigree as the Packard plant (both were designed by Albert Kahn) and a similar vintage (it was built in the 1920s). As the former headquarters of Murray Corp., which made bodies for Ford in the glory days, this plant, too, is inhabited by ghosts. Here, however, the ghosts share quarters with some spirited company: a menagerie of glass blowers, cabinetmakers, architects, seamstresses, a sneaker designer, and three women who teach pole dancing, among others—160 small-business tenants in all, most of them operating on the frontlines of Detroit's burgeoning creative economy.

Their landlord is Dennis Kefallinos, 55, who immigrated from the Greek island of Zakynthos when he was 15, found a job as a dishwasher, and in all these years has never once stopped working long enough to learn how to read and write properly. Today, while he's best known around town as the owner of Niki's Pizza and a place called Bouzouki (which is, gulp, a strip club), he's one of the city's biggest real estate barons.

Kefallinos began buying "distressed properties, big structures," in the '90s, he says, thinking that "in 20 years Detroit is gonna be so hot. Isn't that crazy?" He bought the Russell Center in 2003 for $1.5 million. A bargain, except that most of its 2.2 million square feet were vacant, many of its windows had been blown out by a tornado, and it was losing $50,000 a month. Chris Mihailovich, the property manager, says he really didn't know what to do with the place. Until the artists started calling.

"At first we kind of laughed it off," Mihailovich says. But with nothing to lose, they chose one empty floor, framed in a row of 1,000-square-foot studios, which they offered at around $550 a month, heat included. "And guess what? We filled it. And we made another one, and another one."

The Russell Center is not Kefallinos's most profitable property. To be honest, he's not completely sold on the whole artist-community thing; he's still looking for "the guy who will take 100,000 square feet by the railroad tracks." Meanwhile the creative types keep coming, an average of one new tenant a week.

Whatever's happening here—without any help, by the way, from government or philanthropies—it's

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"AT FIRST WE LAUGHED IT OFF. AND GUESS WHAT? WE FILLED IT. AND THEN WE MADE ANOTHER ONE."

—Building manager Chris Mihailovich on the giant factory's new small-business units

organic, it's mutually supportive, and it's uniquely Detroit. Terri McQueen worked for nine years at Chrysler's Detroit Axle plant until she got "really, really sick" one day, she says, and they sent her home. She never went back. This April, after 18 months of planning, she opened Ya Digg Records, a vinyl-LP merchant, at the Russell Center. Lisa Caston, whose studio is upstairs, is co-owner with her sister, Deborah Edgar, of the Detroit Sewing Spot. Caston likes to forage in a nearby abandoned Cadillac factory for pieces of rusty machinery, which she uses to transfer Industrial Age patterns to fabric. Another Russell tenant, designer Christian Unverzagt, routinely draws on offshoot technologies from the auto industry—such as laser-cut stainless steel—to execute his visions.

Sarah Lapinski, one of the youngest entrepreneurs at the Russell Center, grew up in the Detroit suburbs. She was an urban studies major at Wayne State, where she used to dream about moving someplace more livable, like Portland, Ore. But after college Lapinski took a sudden turn—"I started sewing, maniacally," she says. Today she has her own clothing line, Wound Menswear, and her own business, Motor City Sewing, and owns a home in southwest Detroit, hard by the first drive-in theater in America.

"Now I'm watching all my friends I grew up with, went to school with, partied with," Lapinski says. "They're all starting little businesses too. It's always been a small town for me, with big-city amenities. I love the urban farming movement. Go ahead, industry, keep moving out! We're cleaning up the air, we're cleaning up the water—it's kinda cool."

For the record, at least 25,000 wage earners jammed into the old Packard plant at its peak, and that was just one factory. The Russell Center, even now, is 75% vacant. This may take some time.

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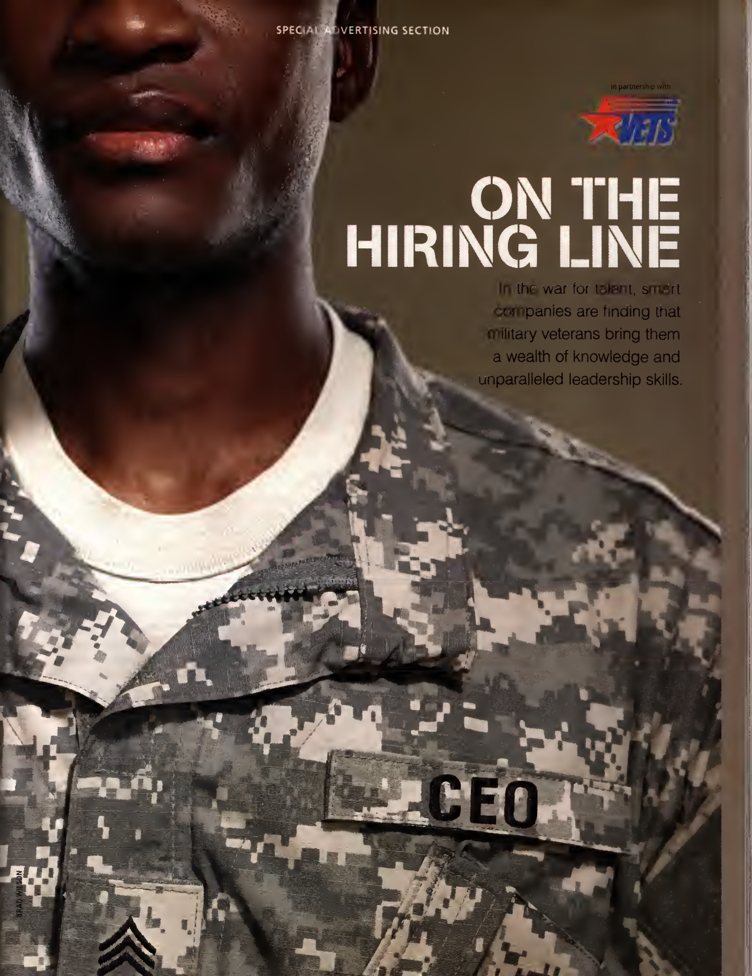
ON THE HIRING LINE

In the war for talent, smart companies are finding that military veterans bring them a wealth of knowledge and unparalleled leadership skills.



BRAD WILSON

In 2006, one week before the end of his second tour of duty in Iraq, Army Sgt. First Class Derek Duplisea was the victim of a suicide bombing while on patrol in Muqdadiyah. The resulting wounds—which included a traumatic brain injury caused by shrapnel—landed him in Bethesda Naval Hospital. Two years of therapy helped Duplisea learn to walk, talk, and slowly regain his memory, but his 13-year military career was over.

Today, Duplisea is busy fighting a different kind of war. As the "wounded warrior" liaison at Raytheon, Duplisea is a key member of the company's military recruiting team. Four years after being injured, he is helping Raytheon recruit the best and the brightest in areas ranging from engineering to supply chain management, while providing guidance and support for others seriously wounded during their military service. "We are in a war for talent, and we are out to win," he says.

Retired vets come with a wide range of leadership skills that translate into the workplace.

Duplisea's enthusiasm for his recruiting mission is clear. The pilot program—dubbed Operation Phoenix—was just a year old when Duplisea signed on. Now, he and senior military recruiter Joe Jackson Jr. are in the process of taking the effort launched in Raytheon's Missile Systems business to all areas of the company. "We are trying to build veteran champions wherever we go," he says, noting that more than 700 vets are already registered in the Operation Phoenix database.

Raytheon, a global technology company that specializes in defense and homeland security, has long prided itself on being veteran-friendly. Yet it isn't alone in turning up the volume on military recruiting. With baby-boomers retiring and the labor pool continuing to shrink, the 156,000 active-duty servicemembers who leave the military each year are increasingly being recognized as a valuable pool of talent. Retiring servicemembers come with not only security clearances but also a wide range of technical, management, and leadership skills that translate directly into the corporate work environment. "We serve as mentors assisting veterans to identify and leverage their military skills, education, and experiences to be successful," says Raytheon's Jackson.

Adapting to the Private Sector

"Almost every skill set that you have in industry has a corollary in the military," says Ray Jefferson, Assistant Secretary of the U.S. Department of Labor's Veterans' Employment and Training Service. Vets also bring important attributes such as an accelerated learning curve, proven performance

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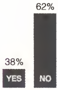
Smaller companies are paying more attention, as well. The U.S. Chamber of Commerce, for example, has launched a program, Hiring Our Heroes, for wounded, ill, or injured vets. After first looking to large employers to provide jobs and job counseling, it is now reaching out to state and local Chamber chapters as a way to involve more small and medium-sized companies.

Likewise, in June the Society for Human Resource Management (SHRM) presented a special day-long program devoted to recruiting, hiring, and retaining military personnel. "It's the first time we have done this," says Eric Peterson, SHRM's manager of diversity and inclusion, noting that most of the organization's members come from small and medium-sized organizations that may lack the resources to develop a military recruiting effort on their own. The one-day SHRM program was designed to not only bring together transitioning vets and HR professionals, but also to present best practices in this area.

Recruting Trend
In the past 36 months, has your organization hired any veterans of the wars in Iraq and Afghanistan?



Source: SHRM 2008

The message to the HR community: "If you don't know that you need to know about this, we are telling you that you do," says Peterson.

Government Incentives

A variety of federal and state programs are reinforcing that message by offering significant tax breaks to companies that hire qualifying vets. The federal Work Opportunity Tax Credit program, for one, provides a maximum tax credit of $2,400 for hiring an unemployed vet or $4,800 for hiring a disabled vet.

Military recruiting efforts often fall under a company's diversity program, both because the military itself is a diverse workforce and because the military experience fosters a different approach to problem solving, Peterson says. In order to benefit from this diversity, however, it is important that companies embrace the unique qualities that veterans bring rather than trying to make them fit the corporate mold, he adds.

Atlanta-based utility Southern Company has seen an increase in the hiring of military veterans over the past few years. In 2009, 24% of the external new hires were military veterans. "We are reaping the benefits of recent initiatives," says Marsha Johnson, senior vice president of human resources and chief diversity officer, noting that the 26,000-employee company has initiated a new military recruiting and branding campaign, added a dedicated military recruiter, created a web site dedicated to military recruiting, and continues to offer benefits for reservists and their families when employees are called to active duty.

Southern Company finds that its corporate culture is a particularly good fit for those exiting the military. Brian Reed, a 42-year-old who spent 21 and a half years in the Navy, found echoes of its core values of "Honor, Courage, Commitment" in Southern Company's principles—"Unquestionable Trust, Superior Performance, and Total Commitment."

"The words aren't the same, but what they are based on is similar," says Reed, now the lead instructor in initial training at the company's Joseph M. Farley nuclear plant near Dothan, Ala. His experience as an officer on nuclear submarines made him well qualified for a job in the utility's nuclear operations, where he found the technology was quite similar. 8oth the Navy and Southern Company use nuclear energy to

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Raytheon is honored to salute the brave men and women in our nation's Armed Forces, just as we're privileged to count so many veterans among our corporate family. Every day, we actively engage in numerous programs that support the troops at home and abroad — from care packages, to hiring programs, to our commitment to multiple support service organizations. To those whose contributions to our company, and our nation, cannot be measured, we offer our sincere thanks and enduring commitment.

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Customer Success Is Our Mission

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THE TOP 10 REASONS WHY CORPORATE AMERICA HIRES VETERANS

1. Strong sense of responsibility
2. Ability to work as part of a team
3. Ability to see a task through to completion
4. Ability to work under pressure
5. Positively enhances the image of the company
6. High degree of professionalism
7. Promotes patriotism of our country
8. Information technology skills and training
9. Strategic planning/foresight
10. Knowledge/expertise of defense issues

Source: SHRM 2008

produce electricity. Whereas the Navy focuses on smaller-scale production, Southern's nuclear fleet produces about 16% of the company's total generation for its 4.4 million customers in the Southeast.

A Global Skill Set

The cross-cultural experience that comes from serving in Iraq and Afghanistan can also be a plus. In the current conflicts, an officer may one day be fighting a battle and the next be acting in the role of town mayor, says David Ferguson, General Electric Co.'s manager of military staffing and recruiting. "What that is really creating in these young military leaders is a great deal of flexibility and the ability to analyze a dynamic situation." Both, he says, are skills that are particularly valuable in today's fast-changing global economy.

While GE's best-known veterans recruiting program focuses on junior officers, the company actually recruits more enlisted personnel than officers. "We target enlisted folks for a couple of different reasons, including the technical training that they received," Ferguson says, noting that the military experience of enlisted personnel makes these veterans attractive candidates for a variety of assignments, including field service engineering or biomedical technician jobs.

> The pool of talent from the military has the potential to transform corporate America.

Overcoming Daily Challenges

Yet moving from the military to the corporate work world can be a difficult adjustment. Seemingly simple tasks such as writing a résumé, interviewing for a job, or negotiating a salary can be daunting to individuals who have spent their entire adult lives in the military. Former Marine Kevin Schmiegel, who has been guiding the U.S. Chamber of Commerce's "Hiring Our Heroes" initiative, says programs designed to help vets find employment must first address these issues.

Even after they get a job, veterans often need support with the transition to corporate life. Military retirees are used to wearing a uniform every day and can be stymied by the idea of dressing for work. Even issues such as when to stand and when to sit can be confusing. "During my first year of work, I would stand up whenever my supervisor would walk into the room," says Jackson. "People would look at me, but that was what I was conditioned to do. We were trained to greet on our feet."

Mastering the nuances of career development can also take time. The corporate performance review, for example, looks nothing like the reviews conducted by the military. "In the military, the narratives tend to make everyone sound like a rock star," explains GE's Ferguson. Not surprisingly, a veteran who finds his or her review exploring areas for improvement might perceive that as a sign of impending failure.

GE has learned to tackle such issues head-on, providing a healthy dose of support to its military recruits both during the initial transition and after each employee has settled in. "If you just have a recruiting focus and don't address some of the other issues, you may in fact develop retention problems," Ferguson explains. One element of this support: a recently launched veteran's network designed to help the 11,000 military veterans now employed at GE make connections across all GE businesses, with a focus on leadership and advancement.

The transition to civilian employment can be easier at companies where the end user of the company's products is the military. "They know our company, they know our products," says

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Southern Company Generation • Southern Company Transmission • Southern Nuclear
Southern Power • Southern Telecom • SouthernLINC Wireless

John Malanowski, Raytheon's vice president of human resources operations, noting that many of those hired actually used Raytheon's radar and missile systems when in the military. That gives vets who join Raytheon a continuing sense of "commitment to mission," he says.

In other cases, it's the people, not the products, that create continuity for transitioning veterans. Health Net Federal Services, for example, supplements and integrates military health care services for the U.S. Department of Defense and supports health care services provided by the Department of Veterans Affairs. Its stated mission: providing quality health care to those who serve.

"When hiring, we definitely take a close look at those who have served," says Molly Tuttle, director of communications at Health Net Federal Services, noting that about 10% of employees are veterans. "These applicants identify with the day-to-day experiences of our beneficiaries, they understand and respect how the military works, and through their service, they have gained the dedication and pride our organization thrives on." They also come with the additional advantage of having obtained a security clearance, which is required of all Health Net associates working for the Defense Department.

More important, says Tuttle, is the fact that these individuals can relate to the needs of the beneficiaries, whether that person is a military wife expecting a child, a soldier suffering from catastrophic war injuries, or a child with an earache.

While employers are quick to point out the impact that veterans have on the bottom line, they acknowledge that there is real reward in knowing that their company is doing the right thing. Indeed, this kind of commitment means that the support for vets often extends well beyond the employment office. Health Net, for one, formed a meaningful relationship with Paralyzed Veterans of Americas to create a vocational rehabilitation center. "We contributed to them early because we really believe in the concept," says Tuttle. "Getting back to work is the next level of reintegration back into civilian life."

Although it is too soon to know what kind of impact today's veterans will have on corporate America, Assistant Secretary Ray Jefferson sees the pool of talent now exiting the military as potentially transformative. One only has to look at the impact that World War II veterans had on American business to understand the potential, he says. "After World War II, many blue-chip companies were built on the talents of veterans," he says, noting that the unique skills being developed by today's troops will certainly shape many of the companies of tomorrow.

Those on the front lines of military recruiting are getting an even more immediate payback. "We go home every day and know that we made a difference," says Raytheon's Duplisea, adding that his program benefits the vets he's recruiting, the company, and the country. "Our program is a program where everyone wins." Clearly, he puts himself in that category, too. —Lynn Asinof

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—Richard C. Adkerson, President and CEO

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Former Commandant, United States Marine Corps

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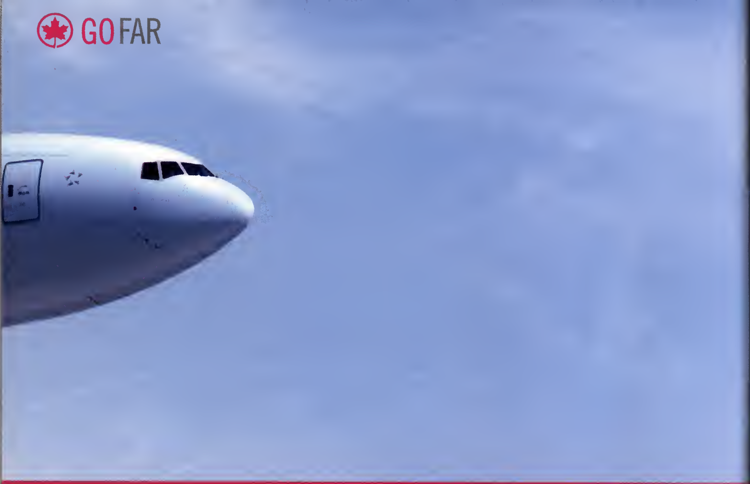

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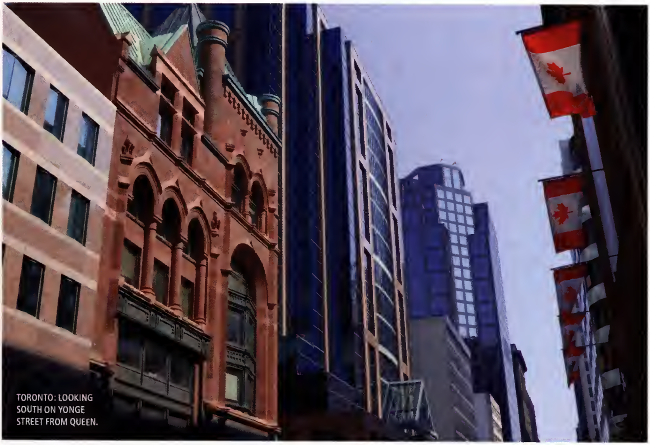

TORONTO: LOOKING SOUTH ON YONGE STREET FROM QUEEN.

More and more executives looking to expand their operations outside the U.S. are turning to an often overlooked foreign opportunity: Canada. Why the change? This vast land has emerged as one of the most competitive developed nations in the world. Most people think of America's northern neighbor as a rich source of oil, minerals, and timber. Yes, it is that—and more. Canada has become a leading manufacturing, high-tech, and research center. Its secret? A highly educated population, low corporate taxes, reasonable labor costs, and favorable trade conditions. In 1988 the passage of the North American Free Trade Agreement (NAFTA) tore down tariffs and opened the floodgates. Today Canada is America's largest trading partner. In 2008 trade in goods and services between the two nations reached $740 billion.

American CEOs and investors have taken note and are pouring capital into Canada at a record rate. In 2009, according to U.S. Treasury International Capital reports, net inflow of U.S. capital into Canadian securities hit $41.7 billion, the largest annual American investment since 1977. One reason for this vote of confidence: The Canadian banking system, anchored by conservative practices and strong regulations, largely escaped the effects of the financial meltdown over the past two years. Dun & Bradstreet's Global Risk Indicator cites Canada as one of the safest countries for investing. In addition, many U.S. investors see the opportunities available in an economy that is, according to Scotiabank, poised to grow 3.6% this year.

For American companies hoping to buy control of Canadian firms, the timing couldn't be better. Valuations look attractive and M&A activity is picking up. According to data compiled by the Financial Post Crosbie: Mergers & Acquisitions in Canada database, 254 transactions, worth almost $33 billion, were announced in the fourth quarter of last year—up 9% from the previous quarter. Historically a list of some of the most famous U.S. acquisitions of Canadian companies include Constellation Brands, which bought Vincor, Canada's top winemaker and wine distributor, for $1.4 billion, and GE, which acquired Zenon Environmental.

Canada's emphasis on science and technology has made it a world-class center for the automotive industry, pharmaceuticals, aerospace, and information technology (think RIM, the maker

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of the BlackBerry). Among G-7 nations, the country ranks second behind the U.S. and fourth in a 134-country review of the quality of scientific research in its government and university labs. "Canada has a skilled, highly productive workforce. Plus, employers don't have to pay for basic health care coverage," says Sean Weir, national managing partner and CEO at Borden Ladner Gervais LLP. BLG, with more than 750 professionals, is the largest law firm in Canada and the oldest—it was founded in 1823. The firm, which has offices in Alberta, Ontario, Quebec, and British Columbia, has a thriving M&A practice, which complements its traditional strengths in all areas of business law and litigation/dispute resolution.

Weir points out another benefit of doing business in Canada that foreign firms often overlook: reliable, clean, and reasonably priced energy. That, says Weir, makes it desirable for American companies such as Lowe's and Best Buy to expand operations in Canada. He has also seen GM, Chrysler, and Ford recently modernize existing factories in Canada, where the Big Three make cars ranging from minivans to the Malibu. Adds Weir: "Canadians today are saying, 'If you want to invest, come on up!'"

Global Energy Powerhouse

Canada, of course, is also rich in natural resources, and when it comes to oil, gas, and timber development, the province of Alberta leads the way. The Western Canadian province boasts proven oil reserves of 173 billion barrels—second only to Saudi Arabia. Canadian and foreign energy companies have been tapping those oil sands for decades, but in recent years advanced drilling techniques have made production more affordable. As a consequence, the region's economy has taken off. Alberta has had the highest average economic growth rate among Canadian provinces, at 3.3% a year, over the past 20 years.

Last year investors poured some $66 billion into Alberta, much of it into energy. Experts predict that the region will continue to be a key source of oil and that in 20 years Canada could be providing more than a third of America's supply. As Gary Mar, Alberta's representative in Washington, D.C., points out, when it comes to energy trade with the U.S., "very few other oil-producing nations have the democratically elected government, the transparency, the proximity, and the supplies that Alberta does."

Another reason for the rapid growth: low taxation and government incentives. Alberta offers one of the most competitive business tax environments in North America—no retail sales tax, capital taxes, payroll taxes, or machinery and equipment taxes. Add to that a world-class transportation and pipeline system, and you have a recipe for a booming economy.

Alberta is not the only place that enjoys low tax rates. Overall, Canada has the lowest payroll taxes among the G-7 nations, and Canada's corporate income tax rate will fall from 18% this year to 15% in 2012. When you include Canada's provincial-territorial statutory tax rates, that number rises to 31.8%, but it is still far lower than the 39.1% U.S. corporate tax rate. More good news: Canada's combined federal and provincial corporate tax rate is scheduled to drop to 27.2% in two years. Businesses operating in Canada can also take advantage of generous tax credits for scientific research and experimental development projects.

In today's post-9/11 world, companies worried about delays in shipping their products across borders needn't fret any longer. Canada and the U.S. recently signed a pact to create a Smart Border. This 30-point plan addresses security risks while finding ways to expedite the flow of goods across the border. For example, fast lanes for pre-approved low-risk traffic have already opened at Windsor-Detroit, Sarnia, Port Huron, and Fort Erie–Buffalo. Wait times average less than 10 minutes.

Entering the country by air has also become easier. With new airport facilities at Montreal, Toronto, and Vancouver, Air Canada offers a heightened customer experience. Dedicated transit facilities provide simple connections, giving American business executives traveling overseas more reasons than ever to transit through Canada. Air Canada's refurbished fleet features lie-flat Executive First suites, seatback entertainment, and power plugs at every seat. The carrier won top honors in *Business Traveler* magazine's 2009 annual survey, including Best Airline for Business Class Service in North America and Best North American Airline for International Travel. Recently, a Skytrax poll of 17 million travelers ranked Air Canada the Best Airline North America.

Yet another reason not to delay a trip to our neighbors to the north. ●

Key Canadian Stats

2010 GDP Growth
3.6%

Canada/U.S. Annual Trade
$740 billion

2009 U.S. Net Capital Investment
$41.7 billion

Population
34 million

2009 GDP
$1.28 trillion

Sources Scotiabank, U.S Treasury, Canadian Government

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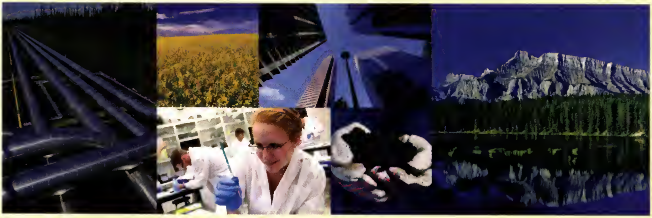

Fueling Innovation

The province of Alberta, rich in energy resources, is blossoming into a high-tech center for a wide swath of industries.

Alberta is blessed with vast natural resources, including oil, timber, and farmland. In fact, a lot of Americans don't realize that Canada is the largest supplier of imported crude oil to the United States, by a wide margin. In 2009 the U.S. imported about 70% more oil from Canada than from Saudi Arabia. And three-quarters of that Canadian oil comes from Alberta—some 1.5 million barrels per day. That's why Exxon Mobil, Chevron, ConocoPhillips, and other major American energy companies do big business there, creating thousands of jobs and stimulating economic growth on both sides of the border.

The province possesses another, less-well-known strength. It is fast emerging as a center for cutting-edge industries including aerospace, info tech, life sciences, and green technologies. Last year investors poured some $66 billion into this fast-growing province. Much of that was to develop natural resources, but a good percentage helped drive new technology businesses.

Alberta Premier Ed Stelmach has an aggressive plan to help make these industries grow. For starters, the government is committed to building a highly skilled workforce. Says Stelmach: "Our province is a beacon that attracts students from all over the world to study at our world-class post-secondary institutions." As for economic growth and stability, Alberta eliminated its debt in 2003 and has built up a $17 billion rainy day fund, allowing the province to weather the current global economic downturn and remain a growing and stable trading partner with the U.S.

One of the largest emerging industries in Alberta is information and communications technology. The province now hosts some 4,300 IT companies employing 54,500 and generating $10.2 billion in annual revenue. The sectors include bioinformatics, digital content, e-learning, global positioning systems, health management systems, nanotechnology, software development, and wireless communications.

Over the next five years, Alberta is expected to invest $6.1 billion in green technology—that's more than all the other provinces combined, according to the Conference Board of Canada. This includes a commitment of $2 billion toward carbon capture-and-storage technology, a huge investment in a game-changing technology that experts deem essential to a cleaner energy future. The province is also forging ahead with new green products including superefficient insulation, recycled building materials, and solar panels and wind turbines. These advancements have enormous potential to sell not only locally but also into America's $12 billion green construction market.

Investment dollars are also flowing into biosciences. Alberta boasts many top medical research and clinical testing facilities as well as an emerging medical devices industry. Total bioscience R&D spending for 2008 was approximately $137 million. The province now has more than 130 life sciences companies and a highly trained workforce to support it. In May, Alberta signed a memorandum of understanding with the Johnson & Johnson Corporate Office of Science and Technology to explore collaborative opportunities in health research and innovation.

So why not plant stakes in Alberta? As Gary Mar, Alberta's representative in Washington, D.C., says, "We share similar language and similar cultures. It's easier to do business here than elsewhere in the world." ●

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THE $600 BILLION CHALLENGE

BY *Carol J. Loomis*

Bill Gates, Melinda Gates, and Warren Buffett are asking the nation's billionaires to pledge to give at least half their net worth to charity, in their lifetimes or at death. If their campaign succeeds, it could change the face of philanthropy.

Flying cross-country in March, Bill Gates stopped in Omaha to lunch near the airport with Warren Buffett at a Hollywood Diner, giving it a small place in history as one venue where the two made plans for their drive to boost giving. Buffett paid for lunch.
Photograph by MARK PETERSON

J

JUST OVER A YEAR AGO, in May 2009, word leaked to the press that the two richest men in America, Bill Gates and Warren Buffett, had organized and presided over a confidential dinner meeting of billionaires in New York City. David Rockefeller was said to have been a host, Mayor Michael Bloomberg and Oprah Winfrey to have been among those attending, and philanthropy to have been the main subject.

Pushed by the press to explain, Buffett and Gates declined. But that certainly didn't dim the media's interest in reaching for descriptions of the meeting: *The Chronicle of Philanthropy* called it "unprecedented"; both *ABC News* and the *Houston Chronicle* went for "clandestine"; a *New York* magazine parody gleefully imagined George Soros to have been starstruck in the presence of Oprah. One radio broadcaster painted a dark picture: "Ladies and gentlemen, there's mischief afoot and it does not bode well for the rest of us." No, no, rebutted the former CEO of the Bill & Melinda Gates Foundation, Patty Stonesifer, who had been at the meeting and had reluctantly emerged to combat the rumors. The event, she told the *Seattle Times*, was simply a group of friends and colleagues "discussing ideas" about philanthropy.

And so it was. But that discussion—to be fully described for the first time in this article—has the potential to dramatically change the philanthropic behavior of Americans, inducing them to step up the amounts they give. With that dinner meeting, Gates and Buffett started what can be called the biggest fundraising drive in history. They'd welcome donors of any kind. But their direct target is billionaires, whom the two men wish to see greatly raise the amounts they give to charities, of any and all kinds. That wish was not mathematically framed at the time of the New York meeting. But as two other

LOOK WHO CAME TO DINNER

THE CROWD AT THE INAUGURAL EVENT ADDED UP TO A LIST THAT WOULD MAKE ANY CHARITY—OR ANY CONSPIRACY THEORIST—SWOON.

LEFT TO RIGHT:

- Bill Gates
- Oprah Winfrey
- Warren Buffett
- Eli and Edythe Broad
- Ted Turner
- David Rockefeller
- Chuck Feeney
- Michael Bloomberg
- George Soros
- Julian Robertson
- John and Tashia Morgridge
- Pete Peterson

Illustration by RICCARDO VECCHIO

U.S. dinners were held (though not leaked), Buffett and Gates and his wife, Melinda, set the goal: They are driving to get the super-rich, starting with the *Forbes* list of the 400 wealthiest Americans, to pledge—literally *pledge*—at least 50% of their net worth to charity during their lifetimes or at death.

Without a doubt, that plan could create a colossal jump in the dollars going to philanthropy, though of what size is a puzzle we'll get to. To begin with, a word about this article you are reading. It is the first public disclosure of what Buffett and Melinda and Bill Gates are trying to do. Over the past couple of months *Fortune* has interviewed the three principals as the project has unfolded, as well as a group of billionaires who have signed up to add their names to the Gates/Buffett campaign.

In a sense this article is also an echo of two other *Fortune* stories, both featuring Buffett on the cover. The first, published in 1986, was "Should You Leave It All to the Children?" To that query, Buffett emphatically said no. The second article, which appeared in 2006, disclosed Buffett's intention to gradually give away his Berkshire Hathaway fortune to five foundations, chief among them the world's largest, the Bill & Melinda Gates Foundation. (For Buffett's thinking on the disposition of his wealth, see his pledge on page 86.)

Since then, in four years of contributions, Buffett has given the foundation $6.4 billion, not counting the 2010 gift, to be made this summer. The foundation in turn has in that same period combined Buffett's money and its immense gifts from the Gateses to raise its level of giving to about $3 billion a year, much of it for world health. One small example: the Medicines for Malaria Venture, heavily funded by the Gates Foundation, has worked with pharmaceutical company Novartis to develop good-tasting malaria pills and distribute them to millions of children—the principal victims of the disease—in 24 countries.

Another fact about the 2006 Buffett article is that it was written by yours truly, Carol Loomis, a senior editor-at-large of *Fortune*. Besides that, I am a longtime friend of Buffett's and editor of his annual letter to Berkshire's shareholders. Through him, my husband, John Loomis, and I have also come to know Melinda and Bill Gates socially. The Loomis team has even occasionally played bridge against Warren and Bill.

ALL THAT SAID, the question of what philanthropy might gain from the Gates/Buffett drive rests, at its outset, on a mystery: what the wealthiest Americans are giving now. Most of them aren't telling, and outsiders can't pierce the veil. For that matter, the *Forbes* 400 list, while a valiant try, is a best-guess estimate both as to the cast of characters and as to their net worth. (Buffett says he knows of two Berkshire shareholders who should be on the list but have been

missed.) As Bill Gates sums it up, "The list is imprecise."

Those qualifiers noted, the magazine stated the 2009 net worth of the *Forbes* 400 to be around $1.2 trillion. So if those 400 were to give 50% of that net worth away during their lifetimes or at death, that would be $600 billion. You can think of that colossal amount as what the Buffett and Gates team is stalking—at a minimum.

Leaving aside the *Forbes* 400 and looking simply at Internal Revenue Service data for both annual giving and estate taxes, we can piece together a picture of how far the very rich might be from a figure like that $600 billion. Start with an admirable fact about Americans as a whole: The U.S. outdoes all other countries in philanthropic generosity, annually giving in the neighborhood of $300 billion.

Some of that gets reported as charitable deductions on the tax filings made by individuals. But taxpayers at low income levels don't tend to itemize, taking the standard deduction instead. At higher income levels, charitable gift data begin to mean something. To take one example for 2007 (the latest data available), the 18,394 individual taxpayers having adjusted gross income of $10 million or more reported charitable gifts equal to about $32.8 billion, or 5.84% of their $562 billion in income.

And billionaires? Here, the best picture—though it's flawed—emerges from statistics that the IRS has for almost two decades been releasing on each year's 400 largest individual taxpayers, a changing universe obviously. The decision of the government to track this particular number of citizens may or may not have been spurred by the annual publication of the *Forbes* list. In any case, the two 400 batches, though surely overlapping, cannot be identical—for one reason because the IRS data deal with income, not net worth.

The IRS facts for 2007 show that the 400 biggest taxpayers had a total adjusted income of $138 billion, and just over $11 billion was taken as a charitable deduction, a proportion of about 8%. The amount deducted, we need quickly to add, must be adjusted upward because it would have been limited for certain gifts, among them very large ones such as Buffett's $1.8 billion donation that year to the Gates Foundation. Even so, it is hard to imagine the $11 billion rising, by any means, to more than $15 billion. If we accept $15 billion as a reasonable estimate, that would mean that the 400 biggest taxpayers gave 11% of their income to charity—just a bit more than tithing.

Is it possible that annual giving misses the bigger picture? One could imagine that the very rich build their net worth during their lifetimes and then put large charitable bequests into their wills. Estate tax data, unfortunately, make hash of that scenario, as 2008 statistics show. The number of taxpayers making estate tax filings that year was 38,000, and these filers had gross estates totaling $229 billion. Four-fifths of

MY PHILANTHROPIC PLEDGE

by Warren Buffett

IN 2006, I made a commitment to gradually give all of my Berkshire Hathaway stock to philanthropic foundations. I couldn't be happier with that decision.

Now, Bill and Melinda Gates and I are asking hundreds of rich Americans to pledge at least 50% of their wealth to charity. So I think it is fitting that I reiterate my intentions and explain the thinking that lies behind them.

First, my pledge: More than 99% of my wealth will go to philanthropy during my lifetime or at death. Measured by dollars, this commitment is large. In a comparative sense, though, many individuals give more to others every day.

Millions of people who regularly contribute to churches, schools, and other organizations thereby relinquish the use of funds that would otherwise benefit their own families. The dollars these people drop into a collection plate or give to United Way mean forgone movies, dinners out, or other personal pleasures. In contrast, my family and I will give up nothing we need or want by fulfilling this 99% pledge.

Moreover, this pledge does not leave me contributing the most precious asset, which is *time*. Many people, including—I'm proud to say—my three children, give extensively of their own time and talents to help others. Gifts of this kind often prove far more valuable than money. A struggling child, befriended and nurtured by a caring mentor, receives a gift whose value far exceeds what can be bestowed by a check. My sister, Doris, extends significant person-to-person help daily. I've done little of this.

What I can do, however, is to take a pile of Berkshire Hathaway stock certificates—"claim checks" that when converted to

those taxpayers made no charitable bequests at death. The 7,214 who did make bequests gave $28 billion. And that's only 12% of the $229 billion gross estate value posted by the entire 38,000.

All told, the data suggest that there is a huge gap between what the very rich are giving now and what the Gateses and Buffett would like to suggest is appropriate—that 50%, or better, of net worth. The question is how many people of wealth will buy their argument.

THE SEMINAL EVENT in this campaign was that billionaires' gathering in May 2009—the First Supper, if you will. The Gateses credit Buffett with the basic idea: that a small group of dedicated philanthropists be somehow assembled to discuss strategies for spreading the gospel to others. The Gateses proceeded to arrange the event. Bill Gates says, with a grin, "If you had to depend on Warren to organize this dinner, it might never have happened." In his office, meanwhile, Buffett scrawled out a name for a new file, "Great Givers."

The first item filed was a copy of a March 4 letter that Buffett and Gates sent to the patriarch of philanthropy, David Rockefeller, to ask that he host the meeting. Rockefeller, now 95, told *Fortune* that the request was "a surprise but a pleasure." As a site for the event, he picked the elegant and very private President's House at Rockefeller University in New York City, whose board he has been on for 70 years. He also tapped his son David Jr., 68, to go with him to the meeting.

The event was scheduled for 3 p.m. on Tuesday, May 5—a day urgently desired by Bill Gates, who wanted to fit the meeting into a short U.S. break he'd be taking from a three-month European stay with his family. Because Melinda elected to remain in Europe with their three children, she did not attend the first dinner, but lined herself up for any that followed. (The Gateses have considered this campaign to be a personal matter for them, not in any way a project of the Gates Foundation.)

Melinda also insisted from the start that both husbands and wives be invited to the dinners, sure that both would be important to any discussion. Her reasoning: "Even if he's the one that made the money, she's going to be a real gatekeeper. And she's got to go along with any philanthropic plan, because it affects her and it affects their kids."

THE LETTER OF INVITATION, dated March 24, went to more people than could come. But the hosts and guests who arrived on May 5 certainly had enough economic tickets to be there: a combined net worth of maybe $130 billion and a serious history of having depleted that amount by giving money to charity. Leaving aside the semi-observers, Patty Stonesifer and David Rockefeller Jr., there were 14 people present, starting with the senior Rockefeller, Buffett, and Gates. The local

cash can command far-ranging resources—and commit them to benefit others who, through the luck of the draw, have received the short straws in life. To date about 20% of my shares have been distributed (including shares given by my late wife, Susan Buffett). I will continue to annually distribute about 4% of the shares I retain. At the latest, the proceeds from all of my Berkshire shares will be expended for philanthropic purposes by 10 years after my estate is settled. Nothing will go to endowments; I want the money spent on current needs.

This pledge will leave my lifestyle untouched and that of my children as well. They have already received significant sums for their personal use and will receive more in the future. They live comfortable and productive lives. And I will continue to live in a manner that gives me everything that I could possibly want in life.

Some material things make my life more enjoyable; many, however, would not. I like having an expensive private plane, but owning a half-dozen homes would be a burden. Too often, a vast collection of possessions ends up possessing its owner. The asset I most value, aside from health, is interesting, diverse, and long-standing friends.

My wealth has come from a combination of living in America, some lucky genes, and compound interest. Both my children and I won what I call the ovarian lottery. (For starters, the odds against my 1930 birth taking place in the U.S. were at least 30 to 1. My being male and white also removed huge obstacles that a majority of Americans then faced.)

My luck was accentuated by my living in a market system that sometimes produces distorted results, though overall it serves our country well. I've worked in an economy that rewards someone who saves the lives of others on a battlefield with a medal, rewards a great teacher with thank-you notes from parents, but rewards those who can detect the mispricing of securities with sums reaching into the billions. In short, fate's distribution of long straws is wildly capricious.

The reaction of my family and me to our extraordinary good fortune is not guilt, but rather gratitude. Were we to use more than 1% of my claim checks on ourselves, neither our happiness nor our well-being would be enhanced. In contrast, that remaining 99% can have a huge effect on the health and welfare of others. That reality sets an obvious course for me and my family: Keep all we can conceivably need and distribute the rest to society, for its needs. My pledge starts us down that course.

Buffett, Gates, and Gates—who have a combined net worth of around $100 billion—have already committed most of their money to charity.

guests included Mayor Bloomberg; three Wall Streeters, "Pete" Peterson, Julian Robertson, and George Soros; and Charles "Chuck" Feeney, who made his money as a major owner of Duty Free Shoppers and has so far given away $5 billion through his foundations, called Atlantic Philanthropies. When Feeney was dropped from the *Forbes* 400 in 1997, the magazine explained his departure in words not often hauled out for use: "Gave bulk of holdings to charity."

The out-of-towners included Oprah, Ted Turner, and two California couples, Los Angeles philanthropists Eli and Edythe Broad, and Silicon Valley's John and Tashia Morgridge, whose fortune came from Cisco Systems. Both the Broads and the Morgridges had equivocated over whether to accept the invitation, regarding the trip as an inconvenience. But there were the signatures at the bottom of the letter—from left to right, Rockefeller, Gates, Buffett. "Impressive," Eli Broad thought.

So on the appointed day the Broads found themselves seated with everyone else around a big conference table, wondering what came next. They mainly got that message from Buffett, whose quick sense of humor left him playing, says David Rockefeller Jr., "the enlivener role." He remembers Buffett as keeping the event from being "too somber" and "too self-congratulatory." Buffett set the ball rolling by talking about philanthropy, describing the meeting as "exploratory," and then asking each person, going around the table, to describe his or her philosophy of giving and how it had evolved.

The result was 12 stories, each taking around 15 minutes, for a total of nearly three hours. But most participants whom *Fortune* has talked to found the stories riveting, even when they were familiar. David Rockefeller Sr. described learning philanthropy at the knees of his father and grandfather. Ted Turner repeated the oft-told tale of how he had made a spur-of-the-moment decision to give $1 billion to the United Nations. Some people talked about the emotional difficulty of making the leap from small giving to large. Others worried that their robust philanthropy might alienate their children. (Later, recalling the meeting, Buffett laughed that it had made him feel like a psychiatrist.)

The charitable causes discussed in those stories covered the spectrum: education, again and again; culture; hospi-

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tals and health; the environment; public policy; the poor generally. Bill Gates, who found the whole event "amazing," regarded the range of causes as admirable: "The diversity of American giving," he says, "is part of its beauty."

At the dinner that followed, the conversation turned specifically to how giving by the rich could be increased. The ideas advanced included national recognition of great philanthropists (presidential medals, for example), or a film, or a philanthropy guidebook, or a conference of the rich. There was no talk of a pledge. Of the dinner, the junior Rockefeller says, "The most important thing my dad and I came away with was that increasing giving would take work by many in that room—delicate, and probably prolonged, one-on-one work."

The dinner, of course, had its unexpected coda: the leak. The leaker, with little doubt, was Chuck Feeney, and the leakee was his longtime friend Niall O'Dowd, the New York publisher behind the grandly unknown IrishCentral.com. (*Fortune* did not succeed in reaching Feeney; of our account, O'Dowd said, "I can't confirm that.") On May 18, two weeks after the meeting, IrishCentral.com posted an article of 14 short paragraphs headlined SECRET MEETING OF WORLD'S RICHEST PEOPLE HELD IN NEW YORK. With that, the fame of the website spiked, as the rest of the press picked up the news and ran with it.

The IrishCentral article exhibited some confusion about which Rockefeller starred at the dinner, or was even there, but otherwise provided the names of all the participants—with the notable exception of Feeney, who apparently didn't realize he looked more conspicuous to the others by being left out. Feeney, however, appears to have been quoted anonymously in the piece, once as an "attendee" who thought Gates the most impressive speaker of the day, Turner the most outspoken (surprise!), and Buffett the most insistent on his agenda for change. In a second instance, Feeney was a good bet to have been the awed "participant" who extolled his fellow guests: "They were all there, the great and the good."

THE MAIN EFFECT OF THE LEAK was to place a "cone of silence"—that's a description from the Gates camp—over everything that transpired in the giving campaign over the next year. But there was certainly action, including a few small dinners abroad. Bill and Melinda Gates hosted a dinner in London, and Bill held a few others in India and China. Raising the philanthropic bar in foreign countries is a special challenge: Dynastic wealth is widely taken for granted; tax laws do not commonly allow deductions for gifts to charity; a paucity of institutions and organizations ready for gifts makes knowing whom to give to just not that obvious. Nonetheless, were the Gateses and Buffett to succeed in their campaign in the U.S., they would probably take it overseas.

But as last summer and fall progressed, Buffett and the Gateses did not even have a plan for how the campaign was to be structured. In this vacuum the idea of a pledge took hold and gained strength. It helped that more dinners were to be held. At them, says Melinda, the three principals would "float the pledge idea to see if it would fly."

THERE THEN OCCURRED the second and third U.S. dinners, most of whose guests have not been publicly outed because of the cone of silence. Secrecy, a Gates spokesman says, is partly a bow to moguls who have been exposed to the philanthropic sales pitch but would be embarrassed to have been identified in case they chose not to step up to the challenge.

In any event, the names of some of the participants are known. The noted philanthropists at the second dinner, held at the New York Public Library in November last year, included New York investment banker Kenneth Langone and his wife, Elaine, and H.F. "Gerry" Lenfest and his wife, Marguerite, from Philadelphia. Lenfest got rich when he sold his Pennsylvania cable television company to Comcast in 2000, netting $1.2 billion for himself and his family. He promptly vowed that he would give most of it to charity in his lifetime. Now 80, he has so far meted out $800 million, a good part of it to schools he attended (Columbia Law School, Washington and Lee, Mercersburg Academy).

Lenfest's favorite moment at the November dinner was Buffett's declaration that Marguerite Lenfest had put forward the best idea of the evening when she said that the rich should sit down, decide how much money they and their progeny need, and figure out what to do with the rest of it. Says Lenfest: "The value of Buffett and Gates is that they're going to make people sit down and think these things through."

The Third Supper, held in December in Menlo Park, Calif., at the Rosewood Sand Hill hotel, is known as the Bay Area dinner but drew from all over the state, including its entertainment precincts. In attendance were some veteran philanthropists, including venture capitalist John Doerr of Kleiner Perkins and his wife, Ann, and the Morgridges, who had selected the meeting site. This dinner was somewhat different from the other two, says Melinda Gates, because a few people there were relatively new to huge wealth and were still forming their opinions about giving. Talk went on for hours, so long that the beef being prepared for dinner became somewhat overcooked. This is reported to have dismayed Rosewood's management, which may have noticed that the crowd in the Dogwood room was worth having back.

The dinner also brought out some of the fears that people have about philanthropy. What does going public with big

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gifts do to the peace in your life? Won't pleas from charities be unending? How do you deal with giving internationally, which too often seems like throwing money down a hole? These are valid concerns, say the Gateses, the kind raised by people who want to feel as smart about giving as they were about making their money. But the questions didn't stop the two from plugging the satisfactions of philanthropy. At those dinners, says Bill, "no one ever said to me, 'We gave more than we should have.'"

Nor did the idea of a pledge get shot down at those dinners. It "floated" nicely, in other words. So as 2010 arrived, a pledge became the strategy. The idea of aiming for a 50% slice of net worth was pragmatically pulled from the sky, being less than the principals would have liked to ask for but perhaps as much, at least initially, as they can get. The pledges, meanwhile, were never envisioned as legal contracts but rather moral obligations to be both memorialized in writing and taken very seriously. They are in fact to be posted on a new website, givingpledge.org, whose construction Melinda Gates oversaw. The 99% pledge that Buffett is making (see page 86) is likely to be the No. 1 document on the website, if he is not beaten out by his Seattle friends.

Enthusiastic about leading the search for Great Givers, the Gateses and Buffett nonetheless have wanted a phalanx of strong supporters. Already committed to at least a 50% pledge are the Broads, the Doerrs, the Lenfests, and the Morgridges. With the online publication of this article, moreover, the three principals will send e-mails and make calls to other billionaires judged likely prospects. A bit later, all of the pledgers may join in sending a letter to a large number of other billionaires, asking them to join the growing crowd. In the fall there may even be a Great Givers conference.

THE DEFINITION OF SUCCESS in this venture may take years to figure out, but each of the principals has reflections about the matter. Buffett knows that everyone rich has thought about what to do with his or her money: "They may not have reached a decision about that, but they have for sure thought about it. The pledge that we're asking them to make will put them to thinking about the whole issue again." He warns, most of all, against the rich delaying the decision of what to do with their money: "If they wait until they're making a final will in their nineties, the chance of their brainpower and willpower being better than they are today is nil."

Bill Gates regards the 50% as a "low bar" encouraging high participation. People, he thinks, may be drawn in by that proportion and then surprise themselves and find they are giving at higher levels. "This is about moving to a different realm," he thinks, and it will take time for everything to sort out.

Melinda Gates separates the near-term from the far. There are so many reasons that rich people don't give, she says: They don't want to plan for their death; they worry that they'll need to hire someone to help with the work; they just don't want to take the time to think about it all. So the initial goal of the pledge campaign, she thinks, must be simply to cut through that and get them moving in the direction of giving. And eventually? "Three to five years down the road, we need to have a significant number of billionaires signed up. That would be success."

Society cannot help but be a beneficiary here, by virtue of at least some dollars and perhaps many. Nor will it be just the very rich who will perhaps bend their minds to what a pledge of this kind means. It could also be others with less to give but suddenly more reason to think about the rightness of what they do. F

Reporter associate: Doris Burke

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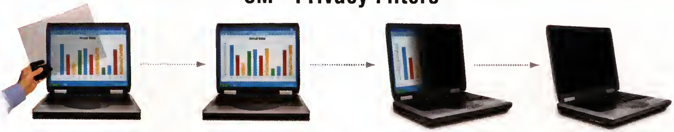

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BILL GATES: LIFE AFTER MICROSOFT

AGE 54 AND RETIRED, GATES IS OCCUPIED WITH WORLD HEALTH, HELPING STARTUPS—AND PICKING UP THE KIDS FROM SCHOOL.

by Brent Schlender

WHEN BILL GATES FORMALLY stepped away from an active role at Microsoft in July 2008, he also hung up his golf clubs. His explanation was as simple as it was revealing: "It takes up too much time to get any good at it."

So much for anything resembling a typical retirement for Gates. Not that we should have expected any different: This is a guy with an extraordinary capacity for work, a man who used to sleep under his desk rather than lose a minute away from the office while building Microsoft into a software juggernaut.

Although Gates remains its nonexecutive chairman, Microsoft almost seems like an afterthought nowadays. Gates is busy with the Bill & Melinda Gates Foundation, which fights scourges like malaria, rotovirus, and HIV/AIDS. He also is evolving into something of a techno-activist, using his money, his clout, and his celebrated smarts in an array of fields from agriculture to the environment. He recently started a personal website called thegatesnotes.com that catalogs his activities and interests. You can read his tweets on Twitter at twitter.com/BillGates.

Another key activity is attending "invention sessions" every few weeks at the laboratories of Intellectual Ventures, an unusual skunkworks started by another old pal, Nathan Myhrvold, who formerly headed Microsoft's R&D.

Indeed, Gates' notion of retirement is more ambitious than most people's careers. After all, he's only 54, and he has an enormous fortune, estimated at $50 billion, to manage, even after pouring tens of billions of dollars into the foundation. Apart from his role as co-chairman of the foundation and his side gig as Microsoft's nonexecutive chairman, he also joined the board of Berkshire Hathaway at the behest of buddy Warren Buffett. He meets frequently with heads of state to lobby for more humanitarian aid for the developing world, and he visits CEOs to urge them to consider serving customers there. "He is translating his accomplishments of the past into fundamentally changing the quality of life for all people, many who haven't even heard of him. And I'm delighted he is," Buffett says. "So this is the best Bill Gates yet."

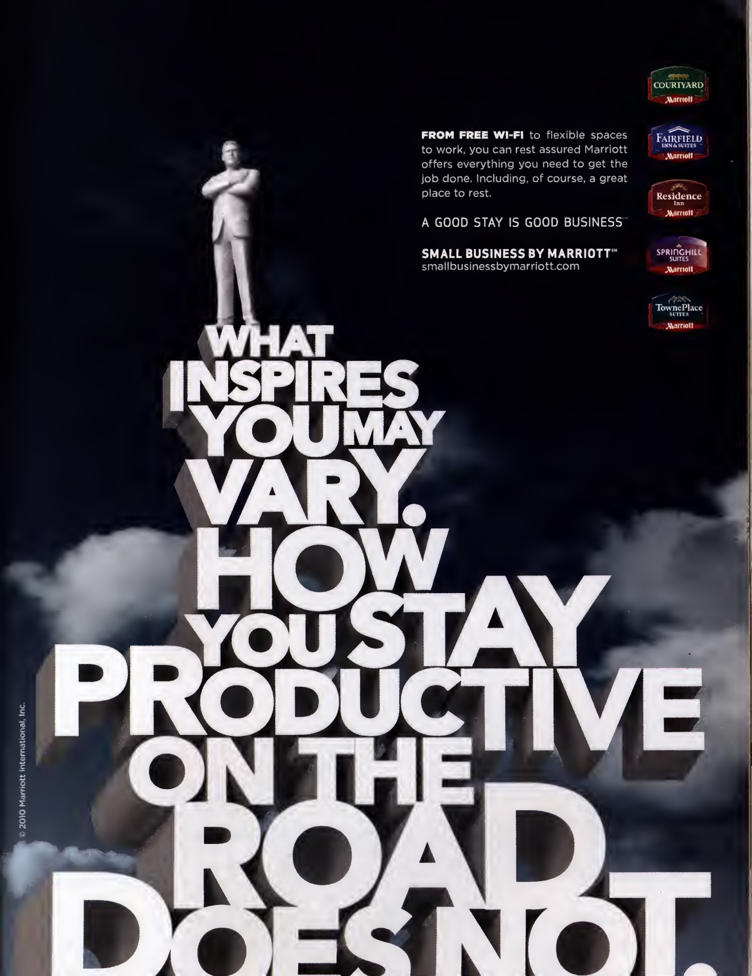
Microsoft, which remains a great source of Gates' wealth (he still owns 641 million shares of the company, valued at $16.5 billion today), seems to have receded in importance, at least from outward appearances. But Gates picks his moments to stay involved. He helped put together the engineering team that built Bing, Microsoft's new search service, which has actually picked up some market share from Google. He occasionally makes public appearances.

Away from the company, Gates finally has room for a little spontaneity. When he's home, he makes time to either drop off or pick up his three kids from school every day. The family almost never misses spending Sunday evenings together, and on other nights he and Melinda have even been known to call up friends out of the blue for a cookout or a card game. That never used to happen.

It's not just that he's around home a little more, but that he has made a commitment to play a bigger part in the lives and education of his children now that they're older. Two are grade-schoolers, and one is in middle school. He has become their unofficial science teacher, and takes them on unusual field trips to places like a toilet paper plant, an aircraft carrier, and even the city dump for Seattle's East Side. Just as important, he is able to work more closely now with his wife, Melinda, at the foundation. "We've always been peers in raising the kids together, which is a huge project," Gates says. "But at Microsoft, we weren't really professional peers. She understood some of my challenges because she had a perspective for it, but we weren't peers. Now we have the foundation work, where we are real peers, and that's a wonderful thing." ■

BRIAN SMALE

For more on Gates' life after Microsoft, go to fortune.com/gatesnow.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ARTICLE BY
Michael Elliott

ILLUSTRATIONS BY
DANIEL BEJAR

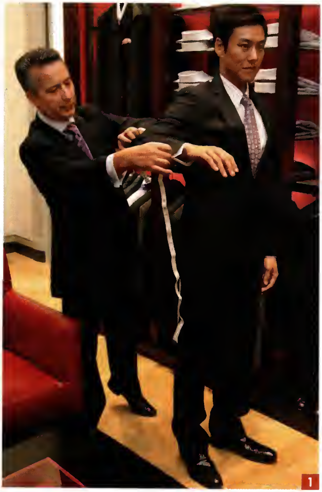
UNLESS YOU SPEND all your time looking at GDP figures, the $58 trillion global economy is almost too big to fathom. In a famous 1995 article in *Prospect* magazine, the British writer Nico Colchester attempted to make this immense figure more manageable by imagining the world economy as 26 Italys. Italy, he thought, was a convenient unit of account (back then its economy was worth roughly $1 trillion). Besides, all of us sort of know what Italy looks like and makes. As an economy you can picture it.

The world has moved on, the global economy has grown, and these days Colchester's analogy feels a little Eurocentric. Let's update his idea and give it an American twist: Think of the world economy, very roughly, as 32 Californias. (California today is about $1.8 trillion strong.) The U.S. accounts for eight of them; the European Union plus Switzerland and Norway, Canada, Australia, and New Zealand make up another 10½. Prosperous Asia—that's Japan, South Korea, Taiwan, Hong Kong, and Singapore—gives you another 3½ Golden States.

That already gets us to 22, meaning the rest of the world—the BRICs, the whole Islamic world, including its oil-rich states, most of Southeast Asia, all of Latin America, and Africa—is the equivalent of 10 Californias, with China accounting for about a third of that output.

Now let's divide the world another way: The population in the first group of wealthy countries is about 1.1 billion, or 16% of the world's total. The rest of the world is home to 84% of the planet.

This enormous disparity between the distribution of the world's population and its economic wealth has led to two distinct arguments. First there is the case that global



inequality is both wrong and dangerous. It's wrong because we diminish our humanity if we in the rich world allow billions to live stunted and miserable lives when they don't need to; it's dangerous because poverty and disease don't stay confined. When the movement of people, pathogens, and weapons is easier than it has ever been, the resentments, diseases, and grievances of the poor risk making everyone's life miserable.

The second argument is concerned less with morals and security and more with markets. The pragmatist looks at the world and sees 4 billion producers and consumers whose appetites and ingenuity have not been fully tapped—sees, in other words, huge opportunities for economic growth and corporate earnings.

Though these two theses are often advanced by folks who like debating each other—antipoverty activists and corporate titans, for example—there's a growing appreciation that

(1) Li & Fung's high-end men's clothier Gieves & Hawkes is seeing increased demand from Chinese customers. (2) A call center for telecom company Turkcell, which runs an education program for Turkish girls. (3) Duane Marks and Thabo Dlovu, employees of South African investment firm Allan Gray, in Johannesburg.

they are not in conflict. As University of Michigan Business School professor C.K. Prahalad argued in his enormously influential book *The Fortune at the Bottom of the Pyramid*, first published in 2004, "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity can open up." The opportunity that Prahalad had in mind, it bears stressing, was not just one for corporations; explicitly, he posited that a partnership between businesses and poor people was a better way of helping the poor than conventional poverty-relief policies.

The work of Prahalad, who died suddenly in April at age 68, provides much of the intellectual background to a Global Forum that *Fortune* is hosting with our corporate cousins *Time* magazine and CNN in Cape Town on June 26–28. The timing couldn't be better, because the forum will take place right in the middle of soccer's World Cup, a tournament that defines a connected world. On July 11 more people will be doing precisely the same thing at the same time—watching the cup final on TV—than has ever been the case in human history. More than 300 leaders of business, government, and civil society will join us at the forum in Cape Town for what Rob Davies, South Africa's minister of trade and industry, calls "the business and economic centerpiece of the World Cup period."

When we were planning the forum, we took as our theme the "new global opportunity," a phrase that is deliberately ambiguous. On the one hand, it illuminates the prospects for businesses as they refine their product offerings for those at the bottom of the pyramid. But this sense of a new global business opportunity was only half of what we meant. As the world emerges from the Great Recession, there is another opportunity, to build a global economy that is more inclusive than it has been—that brings the benefits of economic growth to those who have been marginalized in the past, whether because of location, social status, or sex.

What will it take to make the new global opportunity happen? Everyone at Cape Town will have his own prescription, but here's mine: China has to keep knocking our socks off, Africa has to catch up, and women have to be recognized as the key to economic success. Let's look at those factors in turn.

IN 1987, I WROTE AN ARTICLE on the emergence of great companies based in the developing world. It had more than 8,300 words (those were the days), and not one of them was "China." When I mentioned this recently to Michael Enright, a consultant and business professor at Hong Kong University, he pointed out that if I'd written the piece 10 years later, China might still have merited only a sentence.

Times change. Last year there were 37 Chinese companies on the *Fortune* Global 500, and the number is only going to increase. From oil giants such as CNOOC and Sinopec, to network equipment manufacturers like Huawei and ZTE, to telephone operators like China Mobile, Chinese firms have become household names in the corporate community. China has become a true motor of the global economy—according to official figures, it grew 8.7% in 2009—and its role as both a market and a supplier of goods and services to the rest of the world is now established. How will it play out?

3 MIKHAEL SUBOTZKY

On the consumption side of the equation, the picture is clear. China is a huge and growing market. It managed its stellar growth in 2009 despite a fall in the value of its exports of 16%, and while part of that success is explained by China's enormous investment in infrastructure, China's domestic consumption patterns turned out to be far more robust than most Western economists had predicted when world trade contracted after September 2008. China has tens of millions of people with oodles of disposable income; a major property developer in China told me recently that a third of the purchasers of his high-end apartments paid cash.

But it isn't just real estate—long a safe haven for Chinese money anywhere in the world—that consumers are buying. The real test of China as a market comes when you consider goods and services that you don't expect it to consume. Looked at solely in terms of GDP per head, at $6,000, China is a poor country. But by 2007, according to a report by the research center of Li & Fung, the Hong Kong–based logistics and trading company (itself one of the engines that make globalization go), it was already the world's second-largest market for luxury goods after Japan.

Tapping into that demand, in the past few years Li & Fung's Trinity unit has been buying or licensing high-end European brands such as Cerruti 1881, Gieves & Hawkes, and Hardy Amies, a bespoke tailor on Savile Row in London that was for years known as the Queen's dressmaker. You might think that there would be little demand in China for apparel from companies whose stock-in-trade is silk ties, Oxford college scarves, and blazers. After all, it wasn't long ago that the only suit a Chinese man owned would be a shapeless sack made out of some rough man-made fiber. You'd be wrong. Sunny Wong, Trinity's managing director, told me that just as consumers in the developing world "leapfrogged" the limitations of fixed telephone lines for sophisticated mobile phone services, so Chinese men have bypassed middle-market apparel. They've gone straight from shabby to stylish without stopping at drab. Wong expects the Chinese market for high-end male apparel to continue growing at something like 15% a year.

What about China as a source of innovative products and services? Here the picture is more mixed. Enright says that the vast majority of product innovation in China's technology sector continues to be accounted for by entities that depend on foreign investment. So far only a handful of companies, such as Huawei and ZTE, or Haier, a maker of consumer appliances, compete in advanced markets with established brands, the test that made world-beaters of Japan's branded companies in the 1960s and 1970s.

Enright points out that genuine innovation is starting to be seen in sectors such as coal chemistry and solar power, which makes sense; China is both coal-rich and desperately worried about energy security. With much assistance from the government, Chinese firms such as Suntech Power are becoming world leaders in solar energy. Western companies, meanwhile, have invested heavily in R&D facilities in China. GE, in particular, touts its experiences with "reverse innovation," by which products developed for the poor world can be hits in the rich one too. A key example is a portable, PC-based ultrasound machine built originally for the Chinese market, which by late 2007 was being offered at a price point of $15,000, a fraction of what high-end devices cost.

IT MAKES SENSE TO BELIEVE that in the next 10 years we will see many more examples of relatively cheap goods produced as a consequence of reverse innovation, and we need to. Most of the world remains poor, so products and processes that are designed with poor people in mind are vital. That's why business journals celebrate the impact of cheap, reliable mobile phones with extraordinarily low costs of use not just in India—where companies such as the mobile giant Bharti Airtel pioneered the model—but in much of Africa too.

Africa matters. If China's growth is the epitome of the way the global economy is changing at warp speed and improving the lives of hundreds of millions on the way, then conventional wisdom holds Africa to be its polar opposite. We've long been used to thinking of Africa as a continent scarred by endless wars, disease, and corruption.

That impression is not wholly false. Africa is the world's

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poorest continent. Living there are some 70% of the world's poorest people. But poverty and despair are far from the whole story. Fueled by buoyant commodity prices, the period before the onset of the Great Recession marked Africa's best period of economic growth in a generation (output grew by more than 6% in 2007 and 2008%)—and even in 2009 the continent as a whole managed to grow by 2%. The next step is to do something valuable with the resources you've either killed or dug out of the ground.

In 1987, I visited a tannery in Kenya supported by the Aga Khan Fund for Economic Development, which, unusually, was not exporting raw hides but finishing them into high-quality leather for shoemakers in Europe. Keeping the value-added at home, the tannery's manager told me, was vital to its success. Nearly a quarter-century later that's still true. The first step in African development, says Patrick Dupoux, who helped write a new Boston Consulting Group (BCG) report on growing African companies: "Optimize your natural resources. Provide more value-added than you have in the past."

Even if you do that, making a success of business in Africa is hard. Markets are small and fragmented; Africa doesn't provide the domestic scale that Chinese companies can tap into. Transportation is often difficult. The first step for ambitious companies, says Dupoux, is "to go outside their home country." But it isn't easy: Of the 40 companies that BCG identified as "African challengers," 17 are from North Africa (countries such as Morocco and Algeria), just across the Mediterranean Sea from Europe, and 18 from South Africa. The host nation of our forum is the home of the three companies (Anglo-American, SABMiller, and Old Mutual) that the consultancy considered the only African companies that were true global players.

But Dupoux, who is based in Morocco, has absolutely no doubt that a trend toward greater business competitiveness is under way throughout Africa. Poverty demands creativity of entrepreneurs. African companies, the BCG report points out, are "unencumbered by legacy assets and business models." Like those Chinese businessmen leapfrogging into bespoke suits, banks are jumping into electronic banking without ever having built large branch networks.

ECONOMIC SUCCESS doesn't always translate into a healthier country; too often it does little but fuel corruption, as political elites grab all the diamonds, oil, and timber they can. Why do some countries do better than others, even allowing for differences in natural endowments? What really accounts for China's success, for example? Why do experienced observers like Singapore's Minister Mentor Lee Kuan Yew believe that India—the other giant developing economy

"If we stop thinking of the poor as a burden and start recognizing them as entrepreneurs and value-conscious consumers, a whole new world of opportunity can open up." —C.K. PRAHALAD

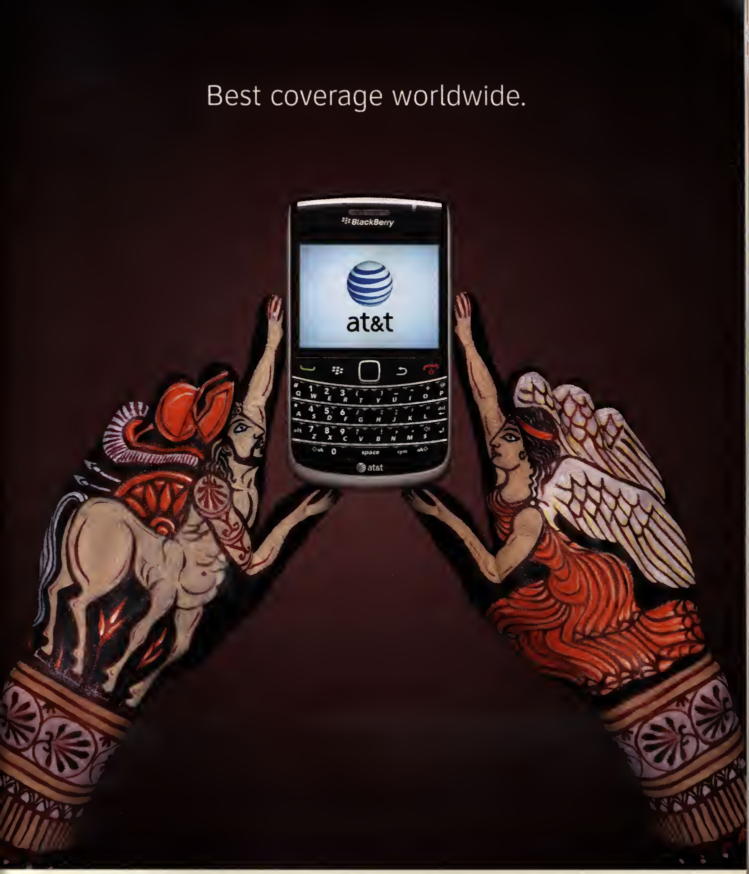
—is only going at "about 60% of China's rate of change"?

It's not because China has more natural resources or skilled bureaucrats or natural entrepreneurs. It's not because India's government is chaotically fragmented, and China's disciplined and much more centralized. (All that is true, by the way.) Hong Kong University's Enright puts his finger on it. "Whenever I'm asked what a country can do to compete with China," he notes, "I say, 'The first thing is, Educate your women.'" Give Mao some credit. Even in the darkest days of unreformed communism, China educated its women, with the consequence that it now has an adult female literacy rate of 90%. India's is just 54.5%.

But if girls and women are really to play their full role in leading nations out of poverty, Maria Eitel, president of the Nike Foundation, argues, education alone is not enough. The real multiplier effect comes from linking education to some sort of economic opportunity. And that has to start early, when girls are in their teens, before they are forced by social and family pressures to marry and have children. If adolescent girls can be helped along the road to economic independence—given a microloan to buy a cow or a beehive, for example—then the economic equation for the family changes. A father realizes that it makes more sense for his daughter to stay in school and earn some money on the side, rather than being forced into early marriage. Policy focused on girls, says Eitel, "is uniquely capable of breaking the intergenerational cycles of poverty."

I don't think it is at all coincidental that many of the initiatives that C.K. Prahalad celebrated in *The Fortune at the Bottom of the Pyramid* had women at their center. Prahalad brought to wider attention companies like Amul in India, the largest processor of raw milk in the world, which depends on women collecting milk from 10,000 villages.

It would honor Prahalad's memory if we could multiply examples like that 10,000-fold. Then we might be able to dimly see the outlines of a world economy in which globalization's benefits did not accrue disproportionately to consumers in the rich world, and in which innovation was not a one-way street, a gift bestowed (on their own terms) by developed nations to those still poor, but rather flowed around the world, benefiting all. That's the new global opportunity. One from which we would all benefit.



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A LEGEND ON WHEELS

The new Chevy Silverado's technology and brawn are generating a lot of buzz among fleet owners.

Sentiment only goes so far in business, even in the storied world of pickup trucks. The prudent fleet owner, saddled with shrinking margins and rising expenses, doesn't care if Uncle Roscoe drove a Dodge or a Daihatsu: If the truck runs up costs, it has no place in the fleet.

That is the message advanced by David Wurster, president of Vincentric, an automotive research company that analyzes life-cycle costs in order to provide insight to auto manufacturers and truck buyers.

"Fuel economy is not the whole thing," Wurster says. "It might be only 20% of the total cost." Anyone running a fleet, he says, should look at all the costs associated with operating a vehicle—depreciation, insurance, repairs, maintenance, fuel, even taxes. Depreciation, he figures, is the single biggest concern, representing about 40% of the life-cycle total cost.

For the last two years, Vincentric's Best Fleet Value in America awards in two truck categories have gone to Chevrolet. The Chevrolet Silverado 2500 HD Regular Cab Work Truck was honored in the three-quarter-ton Heavy Duty Pickup category, and the Silverado 1500 Regular Cab Work Truck was honored in the half-ton Full Size Pickup category.

"I've always liked Chevy trucks," says Malcolm Brown, proprietor of a landscaping firm in Darien, Conn. that runs six trucks hard in summer and winter. "They've got the comfort, and there's no question about their better longevity." To back it up, GM's 100,000-mile warranty exceeds Ford's by 40,000 miles.

The pickup truck market is, of course, brutally competitive. Because pickups are the best-selling vehicles for Ford, Chevy, and Dodge, everyone is looking for an edge with the customers. In the last few years, Detroit has introduced a host of improvements that make the trucks more capable and more high-tech than ever.

As the 2011 models roll out, Chevrolet is clearly leading its rivals. The Silverado's proven power trains include the Duramax diesel engine mated to the legendary six-speed Allison transmission—and the truck now gets 11% better fuel economy while delivering 765 foot-pounds of stump-pulling torque. "That's a lot of giddyup," says Daniel Tigges, GM's full-size truck commercial product manager, noting that it's the most powerful diesel truck on the market.

Plus, the new Silverado can simply haul a lot more. "When you look at this truck from the body mounts down, every single part except one is new for this vehicle," says Tigges. "We've dramatically increased the frame and the component strength. That allowed us to take our pickup payloads up to 6,635 pounds." (That's the equivalent of the offensive and defensive lines of the Pittsburgh Steelers combined.)

The new diesel system comes with a new Exhaust Brake, a smart system that works through the Allison transmission's Tow Haul mode and Automatic Grade braking features to reduce the amount of conventional braking needed. On single rear-wheel models, a new hill-start assist provides aid when taking off on a grade.

Fleet owners will also be impressed by GM's new Autonet Mobile system, which turns your truck into a mobile hot spot that accommodates as many as 10 computers up to 150 feet away. A contractor can thus do a lot of office work right on site. Truck owners value strength, after all, and the most important muscle is the brain. ●

The Silverado now gets 11% better fuel economy while delivering 765 foot-pounds of stump-pulling torque.

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STURDIER – 6,635 LBS. OF PAYLOAD CAPACITY (REG. CAB)[3] *The all-new chassis includes a high-strength, fully boxed steel frame. It offers more payload capacity than Ford or Dodge – up to 6,635 lbs. with a gas engine (Reg. Cab)[3] – and overall improved ride quality versus the previous-generation Silverado HD.*

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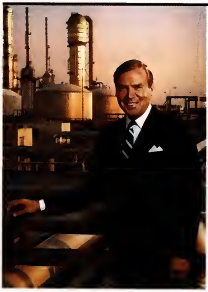
INSIDE AN AMERICAN DYNASTY

Jon Meade Huntsman Sr. has built two empires: an eponymous chemical company and an enormous family that spans three continents and holds power positions in business and politics. But can the sons live up to the patriarch's swashbuckling legend? Do they want to?

Huntsman Corp. founder and chairman Jon Meade Huntsman (seated) heads a clan that includes Jon Jr. (left), the U.S. ambassador to China, and Peter (right), now CEO of the company his father founded 40 years ago.



Jon Huntsman Sr. (left) at a company facility in Texas in 1990; Jon Sr., wife Karen, and seven of his nine children with President Nixon in 1971

J

JON MEADE HUNTSMAN SR. brought us Styrofoam egg containers before his 30th birthday and the famed Big Mac "clamshell" sandwich container by his 40th, somehow finding time in between to serve in Nixon's White House. By middle age his close circle of friends included Margaret Thatcher, Singapore's Lee Kuan Yew, and Dick Cheney. Along the way he raised nine children: His eldest—a former Utah governor—is now the U.S. ambassador to Beijing, while son No. 2 succeeded him as CEO of Huntsman Corp., a global chemical company with about $8 billion in revenue.

Those accomplishments alone would qualify the industrialist for a place in the annals of entrepreneurship, and indeed, today he is one of the world's richest self-made men, reportedly with a net worth of more than $1 billion. But what makes Huntsman, 73, a true American original is the unparalleled tenacity with which he built—and repeatedly rescued—his business empire, mortgaging his own homes or putting up his own money (along with bondholders') along the way. Just two years ago, long after he'd retired as CEO of his eponymous company, he personally went to battle with private equity lion Leon Black, whose Apollo Management backed out of a deal to buy Huntsman Corp.—and won.

The company celebrates its 40th anniversary this year, and Jon Sr. and his family agreed to a rare series of interviews to tell the Huntsman story: the rise and fall of the corporation and life inside an iconic family dynasty that's one part Marriott (another business clan with Utah roots) and one part Kennedy (only Republican).

I am now on the elder Huntsman's Gulfstream IV over China, where the company has sizable operations, and Huntsman the humanitarian is holding forth: He reminds me that he's given away $1.2 billion in the past 10 years to universities and a renowned cancer research center, among other causes.

But it is only a matter of time before the executive reveals another side of his complex personality—that of an unabashed capitalist who took huge risks and strong-armed rivals, financiers, and even his own son in his quest to build

FAMILY TIES

Jon Huntsman Sr. has passed his passions for politics, business, and philanthropy to his children.

Jon Huntsman
MARRIED
Karen Haight

BUSINESS
- Founded Huntsman Corp., a public company ranked No. 293 on the *Fortune* 500
- Building a resort community in Driggs, Idaho
- Launched Huntsman Gay Global Capital, a private equity firm, in 2007

POLITICS
- Stint at the former Department of Health, Education, and Welfare
- Served one year as a staff secretary to President Richard Nixon

PHILANTHROPY
- Founded Huntsman Cancer Institute in 1995
- Major supporter of Wharton School at the University of Pennsylvania
- Donated law libraries at Brigham Young and Southern Utah universities

Jon Jr.
- U.S. ambassador to China
- Served as governor of Utah from 2005 to 2009
- Speaks fluent Chinese

(seven children)

David
- Partner in resort project in Driggs, Idaho
- Active in leadership of the Church of Jesus Christ of Latter-Day Saints
- VP of the Jon and Karen Huntsman Foundation

(eight children)

Kathleen
Deceased
(seven children)

Paul
- Partner in Huntsman Gay Global Capital
- Active in leadership of the Church of Jesus Christ of Latter-Day Saints
- VP of the Jon and Karen Huntsman Foundation

(eight children)

Jennifer
- Married to David Perkin
- VP of the Jon and Karen Huntsman Foundation

(six children)

Peter
- CEO, Huntsman Corp.
- Supports domestic and global humanitarian causes

(eight children, two grandchildren)

Mark
- Mentally disabled, works with various Huntsman businesses and foundations

Christena
- Married to Richard Durham, former CFO, Huntsman
- VP of the Jon and Karen Huntsman Foundation

(seven children)

James
- Huntsman Corp. officer
- Stint as a producer of Hollywood films
- VP of the Jon and Karen Huntsman Foundation

(five children)

his business and philanthropic empire. "You're in the game of life to fight," he says. "If you're in business and you're not aggressively building, you shouldn't be in."

Huntsman, who remains executive chairman of the corporation and whose family and foundation hold a 20% stake in it, wasn't just aggressive, he was audacious, leveraging his company in ways not unlike U.S. banks did before the financial crisis. To finance a bold acquisition spree—Huntsman gobbled up more than three dozen companies in one decade alone—he took on piles of high-interest debt: At one point the company's debt was a whopping 15 times greater than its cash flow.

At first Huntsman insists to me that he "didn't have a choice" in leveraging the business, that he started with nothing, that he was rapidly building a global concern and doling it out just as fast to charity. Of course we both know that Huntsman did have a choice: No one else could have put his corporation on a path of growth that would ultimately threaten his company and thousands of employees. I press him on the point, and the real Jon Huntsman emerges again. "It's a game!" he declares before issuing a sharp, jarring laugh. "You call it ego. Okay. I call it sportsmanship, competition. I'd do it all over again."

So there it is. This is the message—as much as family loyalty or the importance of charity—that this descendant of Mormon pioneers has bequeathed to his nine children, their

"There were times he leveraged this company up to the absolute hilt. When he'd win, he'd win big. But he's lost a lot more than he's won." —PETER HUNTSMAN

spouses, and 56 grandchildren. In addition to 47-year-old Peter, the Huntsman Corp. CEO, half-a-dozen other sons and sons-in-law work for assorted family enterprises. David, 42, is at the helm of an ambitious destination resort under construction in Driggs, Idaho. Paul, 40, is part of a $1.1 billion Huntsman private equity partnership. James, 39, did a brief stint as a Hollywood producer before rejoining Huntsman Corp. as an officer. Son-in-law Richard Durham is a former Huntsman CFO who now runs an investment firm. And one grandchild, this time a woman, is determined to pursue the family business: Peter's 18-year-old, Caroline.

At the helm is a patriarch who combines wily charm, street smarts, entrepreneurial vision, political connections, and certainty that his success rests on a willingness to do battle, alone, against often hostile outsiders. "Everyone has always underestimated a company headquartered in Salt Lake City, Utah," Jon Sr. says. "The New York boys thought they could take me on, that nobody out here has any knowledge or wisdom."

The elder Huntsman's single-mindedness has earned him the admiration and devotion of his offspring, who by all accounts have sidestepped the lawsuits and public brawls that bedevil other American dynasties. But don't look for the same fire from this generation of Huntsmans. In their words, actions, and personalities it is clear that the children—ambassador Jon Jr., 50 (see box, "Obama's (Republican) Man in Beijing"), and Peter in particular—admire but don't seek to emulate their father's way of doing business, opting for management styles that are more inclusive and visions that are more grounded. "I won't say I'm not a risk-taker, but I wouldn't bet the farm 20 times over, like my father did, to get this company going," says Peter. "There were times he leveraged this company up to the absolute hilt. When he'd win, he'd win big. But he's lost a lot more than he's won."

JON SR. HAD A MISERABLE CHILDHOOD: Picture a teenage boy living with his two brothers and parents in student housing at Stanford, angry at always having to work to support the family so that his schoolteacher father could himself go to graduate school. A father who, despite his Mormon roots, was an alcoholic—and an abusive one. "My husband didn't grow up in a happy family," says Karen Huntsman, who was charged with "sobering up" and caring for her father-in-law after Jon's mother died of cancer.

The Huntsmans are descended from one of the first Mormons to cross by wagon train through Emigration Canyon, Utah, where the family home now sits. But there is also a more recent vintage of Huntsman: chain-smoking saloon keepers who ran a famed hotel and watering hole over in Fillmore, Utah. Huntsman's own parents weren't devout, but after his rocky youth he vowed to return to the strict, no-booze Mormon lifestyle, to produce a loyal and large family—and to make gobs of money. His first ticket out came by way of Harold Zellerbach, the paper tycoon, who was impressed enough after interviewing the high school student body president to offer him a scholarship to the University of Pennsylvania's Wharton School. Dropping a teacher's son originally from the rural West into an Ivy League university wasn't an automatic recipe for success. "Jon came from zip," says Karen. "He didn't know how to even tie a tie, and here he was going to school with people whose fathers were cornering the cocoa market." He almost flunked out, but rallied and graduated in 1959.

Dudley Swim, a reclusive Carmel, Calif., millionaire who (like Howard Hughes) was fond of hiring Mormons, offered Huntsman an assistant's job. After he married Karen, whom he met in high school in Palo Alto, Huntsman quit the assistant's gig and took a job at her uncle's Southern California egg business, Olson Farms. A few years later he began to experiment with packaging eggs and in the 1960s partnered with Dow Chemical to produce Styrofoam egg containers. Dow lost interest in the business plan, but Huntsman saw a big future in packaging for an emerging fast-food industry. He spun off his own business, funded in large part by a company he operated on the side that sold $1 albums by singers like Perry Como and Andy Williams at supermarkets.

In 1969 a politically influential Mormon lawyer recommended him to the Nixon White House, where he monitored the flow of documents in and out of the Oval Office. His boss was chief of staff H.R. Haldeman, who would later serve 18 months in prison for his role in Watergate. In his 2008 management book, *Winners Never Cheat*, Huntsman writes: "Haldeman expected me to be unquestioning. It annoyed him that I was not. I saw how power was abused."

Huntsman left the White House after a year, unable to support his large and growing family on a government salary. He also needed to tend to the fledgling packaging business he had founded with his brother Blaine (whose preference for academia would later lead him to become dean of the University of Utah's school of business). "Our business needed leadership. We had huge losses. I had mortgaged our house, borrowed heavily from the bank," Huntsman recalls.

He began peddling Styrofoam packaging. Across the country in Washington, D.C., the Watergate scandal was

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Peter (left), Jon Sr., and Jon Jr., photographed in China in advance of Huntsman Corp.'s 40th-anniversary celebration. The company almost failed at least four times.

breaking, and as Congress mounted its televised investigation, the former Nixon aide waited, nervously, to see whether his own fate would be touched. "One afternoon a car drove up to our office, and two men got out," Huntsman recalls. "I thought they were FBI agents. Watergate had been going on for a year or so, and my name had never bubbled up. I was scared to death. So I told my secretary I'd be leaving out the back door." As it turns out, the men were market researchers from McDonald's, carrying the Styrofoam clamshells he had just sold to Burger King. They wanted to buy the product to package their own hamburgers and hotcakes. Jon Huntsman had found his market.

It was touch and go. The company was "small and fragile and always on the brink of bankruptcy. I watched him slug it out with bankers," recalls Jon Jr. In the 1970s and early '80s "there was no thought of legacy or foundations. It was 'How can we pay back the banks?'"

Lines blurred between the Huntsman family and the Huntsman company. Jon Sr. would often take his children to meetings with customers or vendors. Young Peter would stand, awestruck, at his dad's side when the Huntsman brood checked into a hotel—San Diego's Del Coronado was a favorite vacation spot—and Huntsman relentlessly nickeled-and-dimed and haggled with some poor clerk. "What next?" Jon Sr. would demand. "You gonna charge me for the air I breathe?" Another child might have cringed. Peter was enthralled.

The first of four times that the Huntsman Corp. almost collapsed came in 1973, when the Arab oil embargo cut off critical supplies of polystyrene (the building block of Styrofoam), and Huntsman had to shut down plants in Ohio and California. "We had nothing—zero," Jon Sr. recalls. "So I got on a plane for six months to go around the world and barter—offering other chemicals so we could get polystyrene." He wriggled out of a similar crisis in 1985 before hitting a string of home runs: 35 of the 36 companies he acquired over the next 15 years turned out to be hugely profitable. And Huntsman shrewdly got sellers like Texaco and the U.K.'s Imperial Chemical to help finance the purchases. (When Huntsman executives toured the ICI facilities in England, rumors spread that a bunch of "morons" from Utah were buying the company.)

Huntsman made his entire fortune in the space of those 15 years, from 1986 to 2000. He started doling out hundreds of millions of dollars to charity and founded the Huntsman Cancer Institute, specializing in the research of inherited forms of cancer. A generous donor to Republicans (and later to anyone, including Democrats like Max Baucus, who supported cancer research), Huntsman ran for governor of Utah but quickly found that politics didn't suit his autocratic temperament. He dropped out within weeks rather than face press scrutiny.

"**COULD PETER HAVE BUILT** this company? No way," says Karen Huntsman. "That's my husband: He's driven—driven to make a difference in the world. That's not my boys, because they didn't have to. Jon is a builder. He believes in people, and he believes in himself." Indeed, Peter had to overcome more than just his father's long shadow to become CEO of Huntsman Corp. He has dyslexia so severe that he never finished college. Smart and serious, he has neither the glad-handing personality of his father or the stage presence of his diplomat brother. He left high school to do a two-year Mormon mission in Spain.

Much later Peter would become a dedicated globetrotter,


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"Don't ever tell me we're going to go bankrupt. We'll never go bankrupt, because our name is on the door. That is not an option." —JON HUNTSMAN SR.

moving his family to Belgium to oversee the company's European businesses before settling outside Houston (where the company's operations are based). Unlike his father, he can't imagine living in Utah. He's a political black sheep in this Republican family; he voted for Barack Obama and thinks the Iraq war was cover for the U.S. to gain control of Arab oilfields.

But as a young man, he knew only one thing: He idolized his dad and wanted to follow in his massive footsteps. At age 19 he joined the family business, driving big rigs across vast stretches of lonely Western highway, where he relished the metal-pipe immensity of the refineries he serviced. He made $17,500, less than his part-time receptionist wife. As he rose up the company ranks, he found he was good at sales, good at chemistry, and—like a lot of dyslexics (Einstein, Patton)—good with the kind of conceptual thinking needed to run a complicated company. He also, it turns out, has the right temperament to deal with Jon Sr.'s constant intervention in company affairs.

Peter was 31 when his father named him—at Jon Jr.'s urging—president of the company. It was 1994, and Huntsman Corp., still privately owned, had just doubled its size overnight with a $1.1 billion purchase of Houston-based Texaco Chemical. His father introduced young Peter as the new boss to a roomful of gray-haired senior Texaco executives. They stared Peter down as he nervously uttered a few remarks.

Then he left the room, made a beeline to the nearest toilet, and dry-heaved.

In 2000 his father named him CEO. Within six months, the overleveraged Huntsman Corp. was bleeding $5 million a day, struggling from a sharp spike in natural-gas prices and an oversupply of chemicals in the market. Advisers recommended that the company declare bankruptcy as a way to rid itself of its crushing debt. That's when Jon Sr. took back the reins he'd only recently handed to his son. "I looked at these people and said, 'Don't ever tell me we're going to go bankrupt,'" the elder Huntsman says. "We'll never go bankrupt, because our name is on the door. That is not an option."

Huntsman spent months negotiating with a network of 87 creditors around the world. Peter instituted painful cost cuts, eliminating 2,000 jobs and shutting down several plants. Then, in a fateful move, Peter turned to investor David Matlin, who agreed to rescue the company with a $400 million injection of capital. Matlin would later seek to recoup his investment by insisting that the Huntsmans take their family-controlled company public.

Looking back at the 2000 near failure, I ask Huntsman whether, by stepping back in so forcefully, he wasn't steamrolling his son. Huntsman says he needed to teach his son how to fight. "There are times in life where you have to go all out and survive at all costs," he says. "There was not one banker, not one bondholder, who was not paid their money."

After the crisis abated, Peter steered the company in a different direction, moving out of the packaging and commodity-chemicals business and toward high-end specialty chemicals, which produce higher margins with less volatility. The chemical business—which feeds off oil products—is tied to the vagaries of energy prices. "Peter reduced their exposure to energy costs," says Kathy Hall, executive editor of *PetroChem Wire*. The young CEO also diversified the company's product portfolio, eventually producing chemicals that could be found in some 10,000 products—ranging from auto dashboards and computer parts to airplane wings and Nike shoes. And he turned the rise of environmentalism—a headache for all chemical and packaging companies in the '80s and '90s—into a boon, producing chemical supplies for UV-reflective paints, insulation foams, and windmill blades.

IN 2004, HUNTSMAN WENT PUBLIC, a move that made the next generation of Huntsmans overnight millionaires (on paper, at least) and enabled them to pursue their own business and philanthropic interests. Peter was hitting his stride. Then, in 2007, Jon Sr. tried to sell the company that his son was contentedly managing. And again the family's fortunes almost crashed.

Huntsman Corp. had agreed to be taken private by Hexion, a company controlled by Leon Black's Apollo Management, for $28 a share, a good deal for a stock that was then trading under $20. The buyout would have enabled Jon Sr. to cash out and fully fund his philanthropy—specifically, the Huntsman Cancer Institute. By 2007, Jon—a three-time cancer survivor who says his life goal is to fund a cure for cancer—was adding hospital wings to provide a luxurious and comforting setting for cancer patients undergoing chemotherapy and radiation. "I wanted it to look like the Ritz," Huntsman says one afternoon at the Institute as he looks up the elegant foyer stairway at marble imported from India.

Huntsman, operating on the assumption that the $10.6 billion sale of his company would go through, launched a costly expansion of his hospital. He also seeded a range of other businesses, including the Idaho resort run by David and the private equity company. But one afternoon in June 2008—with the recession looming and Huntsman's earnings dropping—Apollo's Joshua Harris called to say the deal was off. Peter and his father were stunned. "It was probably naive on my part to trust those guys," says Huntsman.

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Apollo's reason for killing the deal? A person close to Apollo says that amid the global financial crisis it acted "ethically, legally," and in the best interest of its investors by shutting down the deal. At the time, Apollo put out a release saying the merger of its Hexion subsidiary and Huntsman would produce an insolvent company. The result: Huntsman Corp. stock tanked to $2 a share, jeopardizing the family's wealth but also spawning chaos at the cancer institute, the main beneficiary of the sale.

Once again the senior Huntsman stepped back into daily operations. "I will fight this until the day I die," Jon Sr. told a reporter at the time. He and Peter both knew the deal with Apollo legally was ironclad and not contingent on Huntsman Corp.'s earnings at any given moment. Attorneys advised them to settle their claims against both Apollo and its banks. But, says Huntsman, "we had to make a fight out of it. Peter was gracious enough and smart enough to turn this over to me."

They took Apollo to court in Delaware and won. Rather than face lengthy appeals, Huntsman met alone with Black, a fellow steely billionaire, to hammer out a settlement. "We didn't have lawyers in the room, so there wasn't anybody there to draw out animosities or ego or ill will," Huntsman recalls.

A $1 billion settlement, which included an Apollo investment in Huntsman, was worked out in less than three days—and Apollo paid months before the due date. The two billionaires left with a handshake and a dinner date. The banks, from whom Huntsman also sought damages, settled the following year for $632 million in cash and $1.1 billion in loans to Huntsman Corp. The twin settlements added needed strength to the company's battered balance sheet. Asked about the episode, Black issued a statement saying he has great respect for Jon Huntsman and the family's philanthropy, and noted his own $50 million contribution to cancer research, including a donation to the Huntsman Institute.

Having saved his company a fourth time, is Jon Huntsman Sr. finally ready to relinquish control? Perhaps. "I have to say, Peter is coming around to be a tough fighter like his father," says the elder Huntsman. "This world of business is not made for the faint of heart: Armand Hammer told me that as we flew to the Soviet Union in 1988." If Peter begrudges his father's persistent involvement, he won't say so. In fact, he recalls the day of the settlement with Apollo as "one of the happiest days of my life," because it meant he'd get to keep running the chemical business. And he remains enthralled with his father's ferocity. "Could you find my father in China or India? Absolutely not," Peter says. "You can't top this country in creativity and openness and entrepreneurial spirit. American exceptionalism is alive and well." Thanks to that exceptionalism, Huntsman Corp. will, for now, remain a standalone company that will live to fight another day. And with a Huntsman, Peter, for now, firmly at the helm. ■

Additional reporting by Katie Benner

Obama's (Republican) Man in Beijing

AS AMBASSADOR TO CHINA, JON HUNTSMAN JR. USES CHARM AND POLITICAL SAVVY TO ADVANCE U.S. INTERESTS ABROAD.

JON HUNTSMAN JR., 50, should have been safely ensconced for a second term in the Utah governor's mansion, enjoying his popularity with the state's voters and weighing his 2012 prospects as a GOP presidential nominee. Instead President Barack Obama astutely took a well-financed potential opponent out of the running by tapping him as U.S. ambassador to China. Now Huntsman, on the job nearly a year, is at

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When he's not in closed-door negotiations, he treats the job as if he's still on the campaign trail—only the candidate is America and the voters are the Chinese people. His staff bypasses official Chinese press coverage by posting his speeches and appearances on the embassy's website—hoping for pickup by the nation's more than 300 million Internet users. And Huntsman campaigns far outside Beijing, where "there's a reservoir of deep goodwill. You speak from the heart, and hopefully the people walk away thinking well of the U.S."

That's exactly what the ambassador attempts on a frigid March morning in Zhengzhou, a gritty industrial city not found on many tourist maps. Officially Huntsman is here to celebrate the launch of a U.S.-China tuberculosis research effort. But this event could just as easily be an Iowa campaign rally. We are greeted by girls dressed like county-fair queens, rows of neatly turned-out nurses in white, and local officials in gray. Cannons stand by to explode rainbows of confetti.

Huntsman's Mandarin, which he learned during his two-year Mormon mission to Taiwan, is so fluent that he cracks jokes and engages in politician-style flattery: "Your province is so steeped in history it would take a two-month visit to do it justice!" he declares. Chinese locals love the fact that he has an adopted Chinese daughter, Gracie Mei, featured on a postage stamp in Yangzhou, the city of her birth. But then, Jon Huntsman Sr.'s eldest son was born for the stage. In high school he played keyboard in rock bands; as governor he once performed with REO Speedwagon. (On his iPod today? Rachmaninoff to Foo Fighters to Smashing Pumpkins.) He also carries the Huntsman appetite for risk and competed in motocross until, he confesses, "I turfed too many times."

Those daredevil instincts extend to his politics. In this polarized political environment, Huntsman stretches the cloth of any GOP big tent. While he cut taxes and effectively managed Utah's budget, Gov.

Huntsman (far right) with President Obama and China's ambassador to the U.S., Zhou Wenzhong, in China late last year

JASON REED—REUTERS/CORBIS

Huntsman supported gay unions, happily took Obama's stimulus money (wanting more), and is a skeptic of both the Iraq and Afghanistan wars. One of his last acts in his first term as Utah governor was to loosen the state's strict liquor law.

INDEED, UNLIKE HIS more devout brothers, who are officials in the Church of Jesus Christ of Latter-Day Saints, Jon Jr.'s Mormon credentials are soft. "I can't say I am overly religious," he says, noting that his children attend Catholic schools and that one of his adopted daughters was born into a Buddhist culture and another comes from the Hindu tradition. "I get satisfaction from many different types of religions and philosophies."

Huntsman's path to a Beijing posting began in the Nixon White House, where he would visit his dad, then an aide to the President. One Saturday, Henry Kissinger asked him to carry his briefcase out to the car. When the 10-year-old asked where he was going, the Secretary of State answered, "China, but don't tell anyone." This bit role in Kissinger's top-secret mission to pave the way for normalized relations with Communist China is a proud piece of Huntsman family lore. Last year, when Kissinger took Huntsman to lunch at the Metropolitan Club in Washington, he said that he understood—via President Obama's jokes about the Nixon-era legend—that he was now supposed to carry the younger man's bags. —*N.E.*

+ **FOR MORE** *on the ambassador's views on China, go to fortune.com.*

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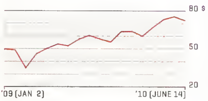

UNION PACIFIC: 'BUILDING AMERICA'

ARTICLE BY
Marc Gunther

PHOTOGRAPHS BY
SHULI HALLAK

Recent woes aside, the nation's largest railroad remains a rock-solid business. Here's how the UP's CEO does it.

Painting and repairing: in Union Pacific's Jenks Mechanical Shop in Little Rock

THE STRAWBERRIES ON YOUR CEREAL. Your laptop, cellphone, and TV. The coal that's burned to power them. The car you drive. The roof over your head. We may work in a knowledge economy, but Madonna had it right: We live in a material world.

That's why the Union Pacific railroad, No. 164 on the *Fortune* 500, has played a vital role in the U.S. economy since 1862. With $14.1 billion in revenue last year, the UP, which is based in Omaha, is America's largest railroad. Close behind is its chief rival, the Burlington Northern Santa Fe (2009 revenues: $14 billion), headquartered in Fort Worth, which was acquired this year by Warren Buffett's Berkshire Hathaway for $26.4 billion. (Berkshire previously owned about 20% of the company.) The deal put a spotlight on the often troubled railroad business—in a good way. "It was a vote of confidence in the industry," says Jim Young, the 53-year-old chairman and CEO of Union Pacific. "He sees the long-term value in the rail franchise— how unique it is in America."

Why would Warren Buffett want

to own a railroad? "In business," he has said, "I look for economic castles protected by unbreachable 'moats.'" The economic moats around railroads are the billions of dollars it costs to build them and the fact that the rights of way they need are all but impossible to obtain today. Says Young: "I don't think you'll ever see a railroad built in America again." Because they are the most efficient way to haul freight, railroads should grow along with industrial production. They also have an opportunity to take market share away from long-haul trucks, particularly as fuel prices rise, highway congestion increases, and shippers seek a green alternative.

All those factors make the Union Pacific a good business, despite some recent woes. Its network is unparalleled: It operates 32,094 miles of track in 23 states west of the Mississippi, using 8,350 locomotives and 83,197 freight cars that carry, among other things, grain, corn, soybeans, coal, stone, sand, scrap metal, logs, farm machinery, military equipment, wind turbines, fresh produce, and shipping containers packed with consumer goods. "Building America" is the UP's slogan, and it's not an idle boast.

The trouble is, all that infrastructure requires billions of dollars a year of capital investment. And while railroads do well with steady, predictable growth, anything else can throw them off stride. Economic downturns leave rail companies with costly, idle capacity. Unbridled growth can be an even bigger headache.

It's Young's job to steer the Union Pacific through the peaks and valleys. A gray-haired, plainspoken Omaha native, he is a lifelong company man who says things like: "I think I work for the greatest company in America. Period."

It didn't feel that way when he took over in 2006. The UP was in crisis mode. Demand for shipping had surged and the railroad buckled under the added load. You need five things to run a railroad—track, yards, locomotives, freight cars, and people—and none can be mustered in a hurry. "We were aggressive in cutting costs, and it cost us," Young recalls. "We didn't have enough locomotives. We didn't have enough crews." Weather-related calamities, including Hurricanes Katrina and Rita, made matters worse. Bottlenecks developed, troubles cascaded throughout the network, and customers suffered from long delays, as well as lost or damaged goods. Even now, Young seems pained by the memories. "We were, really, last in service. We were the best marketing arm of our competitor. I'm not kidding," he says. "We learned a very, very tough lesson."

Since then Young and his team have restored the railroad's good name. It took new technology, investment in track and equipment (about $10 billion in the past four years), and old-fashioned cheerleading. Young takes to the rails in a custom-built train every few months to meet with some of the UP's 42,000 employees, reminding them how vital they are. "You have to hit the schedules," he says. "This is an unforgiving business."

Customers have taken notice. Last year the HUB Group, a $1.6-billion-a-year transportation company, shifted nearly all its business in the West from the Burlington Northern to the UP. "We're seeing about the best rail service I've ever seen," says David Yeager, HUB's CEO, who has been in the business for 35 years. An index of customer satisfaction, which the company watches closely, reached 87%. It had fallen as low as 64% in 2005, just before Young took over.

But just as the UP was getting the trains to run on time, the recession hit. Last year carloads fell 16% from

Union Pacific's infrastructure requires billions of dollars in capital investments.

2008, revenues were down 21%, and net income dropped 19%. "It was phenomenal how quickly things fell off," Young says. He slashed costs: Some 2,000 locomotives were parked at rail yards. "At peak we had $6 billion in assets idled," Young says. But he tried not to cut so deeply that the UP would be caught short by an economic recovery. About 5,300 employees were furloughed, but with a twist: Many were kept on part-time, with health care benefits, so that they would be available when needed.

These days things are looking better. Nearly half the furloughed workers have been recalled, and trains are being brought back into service. Volume is growing for the first time in two years; carloads were up by 13% during the first quarter.

THE UNION PACIFIC has also become more efficient. Trains are longer—on average, 5,800 feet, or more than a mile long—and instead of just pulling the freight cars, locomotives are distributed throughout the trains so that they push as well. Information technology helps too: Locomotives with GPS track the fuel efficiency of every engineer, and those who use the least fuel get a share of the savings, between $200 and $400 a month.

That has enabled the Union Pacific, with the rest of the railroad industry, to tell a nice-sounding environmental story: The rail industry as a whole carries about 43% of all freight (as measured in ton-miles), but trains consume just 7% of the energy used to


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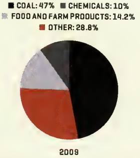
BY THE NUMBERS: RIDING THE RAILS

DATA ON THE SEVEN U.S. CLASS I RAILROADS, DEFINED BY 2009 OPERATING INCOME IN EXCESS OF $378.8 MILLION. —MELANIE LINDNER



More coal is transported by rail than any other commodity group. Coal accounted for 47% of all freight carried in 2009, up from 44% in 2005.

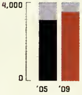
10,743
MILES OF TRACK

17,251
WORKERS

Texas has more rail mileage and railroad employees than any other state.

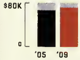
100.7
MILLION TONS OF FOOD HAULED IN 2009

7.2%
PERCENTAGE UP FROM 2005



13.8%

In 2009, each train hauled an average of 3,546 tons of cargo, up 13.8% from 3,115 tons in 2005.



6.2% **7.7%**

American Class I railroads employed 151,906 people at the end of 2009, down 6.2% from 162,000 in 2005. The average salary of a Class I railroad employee in 2009 was $72,153, up 7.7% from $66,975 in 2005.

1%

Motor vehicles and related equipment account for just 1% of all cargo moved by American Class I railroads.

SOURCE: ASSOCIATION OF AMERICAN RAILROADS

move freight. Trucks, by contrast, move 31% of the tonnage but use 66% of the energy. UPS, a big customer of Union Pacific, uses trains rather than trucks to move ground packages that travel 750 miles or more. "The economies of steel on steel are better than rubber on concrete," says Kelley Anderson, general manager for rail at UPS.

So are trains "green"? That depends. Young says: "We can move a ton of freight about 435 miles on one gallon of diesel." But the UP's biggest business is shipping coal, America's dirtiest fuel, and the company has lined up with the coal industry in opposing climate legislation in Congress.

REGULATION is another worry for Young, who has seen railroads thrive since they were deregulated in 1980. A coalition of freight customers called CURE (Consumers United for Rail Equity) is lobbying in Washington for legislation that would make it easier for shippers to challenge railroads' rates before an obscure regulatory agency called the Surface Transportation Board. Young says re-regulation would be a disaster. "You can call it what you want to, but it is basically price controls," he says. If anything, he'd like to raise prices, so that the UP can continue to invest in its infrastructure. He also wants to get the company's return on capital, which was 8.2% last year, "above a double-digit number."

Still, investors in the company have done very well. Over the past five years shares in the Union Pacific have grown by about 107%, while the S&P 500 index is down by about 11%. Analysts say the company will benefit from a gradual economic recovery, but Young isn't counting on it. "My No. 1 concern is the world economy," he says. "I'm trying to make a decision on hiring for the next six months. It's never been more uncertain." ■

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